October 2024

CUT THROUGH QUARTERLY
AUSTRALIAN VENTURE CAPITAL
FUNDING REPORT
Q3 2024

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CUT THROUGH venture

Q3 2024

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AUSTRALIAN VENTURE CAPITAL FUNDING

$695M
TOTAL FUNDING

92 VC
39 accelerator DEALS

THANK YOU TO OUR SUPPORTERS

HSBC

CORRS CHAMBERS WESTGARTH

Vanta

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AND AUSTRALIA'S TOP STARTUP INVESTORS FOR THEIR CONTINUED PARTNERSHIP

Five V Capital, investible, Athletic Ventures, ALIAVIA Ventures, Minderoo Foundation Generation One, UNIQUEST, AURA VENTURES, launchvic, AFTERWORK, artesian, ARCHANGEL, OIF

MACDOCH VENTURES, Skalata, GiantLeap, black nova venture capital, ALIUM CAPITAL MANAGEMENT, tdm. growth partners, Alberts, Climate Salad, ONE VENTURES, airtree, Jelix Ventures, TEN13, FIREMARK VENTURES, tribe Global Ventures

aussie angels, ANTLER, Shearwater, MAIN SEQUENCE, MA Growth Ventures, QIC, MIGHTY, Second Quarter, evp_, Square Peg, tenacious ventures, BLACKBIRD, INNOVATION BAY

SIDE STAGE VENTURES, Possible Ventures, galileo, sprint. founders first, Tripple, Tidal, Empress Capital, SKIP CAPITAL, SYOIC, RAMPERSAND, Startmate, fundabl, FLYING FOX, scale investors

WUNALA CAPITAL, ALICE ANDERSON FUND, lighter capital, FIRST AUSTRALIANS CAPITAL, WILDCARD VENTURES, WORTHWHILE VENTURES, SCALARE PARTNERS, 1835i, GANDEL INVEST, Carthona Capital, PLAYBOOK ventures, Perennial Partners, Tractor Ventures, BLACK SHEEP CAPITAL

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TL;DR – FIVE THINGS TO KNOW

After reaching a six-quarter high in Q2, deal funding plummeted back to Q1 levels, mirroring the 2023 slump. This decline was driven by the absence of mega deals over $100M, which we can expect to remain sporadic and significantly influence quarterly fluctuations. Despite this, the total number of deals surged to a five-quarter high, largely driven by a notable increase in Accelerator round announcements during the quarter.

01

Q3 2024 saw total funding drop significantly compared to the previous quarter, hitting a multi-quarter low of $695M. Despite this decline, total deal announcements increased, indicating continued investor activity, particularly at the early stages. Seed-stage deals were particularly active, accounting for a third of all announced non-accelerator investments.

02

The drop in funding was driven entirely by the absence of mega-deals in Q3. No deals exceeding $100M were announced, and those over $50M fell to a multi-year low. Meanwhile, deals under $50M remained near the highest levels since late 2022, and Accelerator announcements approached an all-time high.

03

Investor sentiment continues to climb, with 49% of investors describing the funding market as more favourable compared to last quarter. Additionally, 53% reported evaluating more deals, while 58% rated the quality of deal flow as good or excellent. However, portfolio health showed less positive signals: reports of layoffs and startup closures increased relative to Q2 2024.

04

The battle between old dog and young pup continues, with Enterprise/Business Software and AI/Big Data maintaining their six-quarter streak in the top two spots among investors' "most exciting segments". However, Fintech held its place at the top of the funding table for the second consecutive quarter, accounting for four of the ten $20M+ deals. Meanwhile, Climate Tech led in deal volume, though ten of the 23 announced deals in this segment were Accelerator rounds.

05

Female-led startups continue to achieve better outcomes in the earliest funding rounds. Pre-Seed participation by teams with at least one female founder reached 50% for the first time, while Seed-stage participation hit 26%. 54% of Accelerator funding rounds included female founders. Although lower, female participation in Series A and Series B+ rounds remained in the mid-to-late 20s percent. The share of funding to female founders was weaker, at 20%.

CUT THROUGH'S VIEW:

ARE WE ENTERING EXIT SEASON?

As we enter the final quarter of 2024, many venture capital funds are laser focused on delivering cash returns.

For years, exits were a noticeably absent part of the conversation in Australia's venture capital landscape. Most funds focused on growth, essentially avoiding discussions of liquidity. This has shifted and exits have now moved front of mind.

This month's Cut Through Quarterly Investor Sentiment Survey found nearly half of VC firms are discussing exits more frequently than this time last year. The message is clear: *the pressure to return capital to investors is building.*

At the AIC Australian Investment Conference in September 2024, a panel featuring investors from Five V Capital, Blackbird, Brandon Capital, and Perennial Partners delved into how capital managers are navigating various exit pathways. The tone was noticeably different from previous years.

Traditional IPOs, particularly ASX listings, have slipped from their pedestal. While the dream of an IPO remains, it is no longer seen as the default route for achieving liquidity.

Instead, alternative exits such as private equity buyouts and secondary sell-downs are gaining ground. These methods are undeniably more practical and, crucially, faster ways to return capital to Limited Partners. As a result, VCs are focusing their efforts on these strategies.

For funds and founders, secondary sell-downs offer flexibility: the company can continue its growth trajectory without disruption, and the founders retain control. Investors looking to exit can achieve a return on their investment without forcing a sale of the entire company.

Meanwhile, strategic buyers and private equity firms are increasingly interested in acquiring stakes in companies at earlier stages of their development—stages that were traditionally the domain of venture capitalist alone. This shift means that more options for companies seeking investment and for investors looking for liquidity.

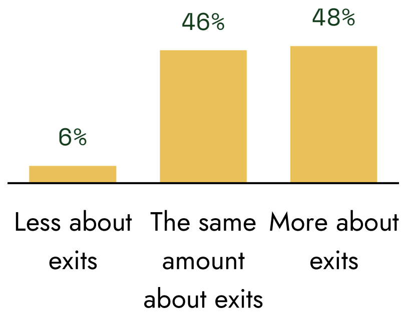
The narrative is shifting. Managers are no longer asking *whether* they can exit their investments. The focus is now squarely on *how* they will exit.

With more liquidity options available than ever before, many VCs are hopeful that 2025 could usher in a long-awaited "exit season" for the Australian venture capital market.

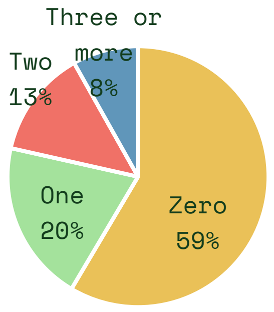
After years of waiting, the timing may finally be right.

INVESTOR INSIGHT:

Compared to this time last year, your firm is talking:



How many exits have you had across your fund(s) in 2024?



What is the most common reason for your firm to pursue an exit in 2024?

#1 Stage of fund life

#2 State of funding market

#3 Company scaled to size at or above your original investment thesis

INVESTOR INSIGHT: What type of exits have you seen across your fund(s) in 2024?

ASX listing | International listing | Sale to private equity | Sale to PE-backed strategic / industry player | Sale to non-PE-backed strategic / industry player | Secondary sell-down

LEAST COMMON → MOST COMMON

THE HEADLINE FIGURES

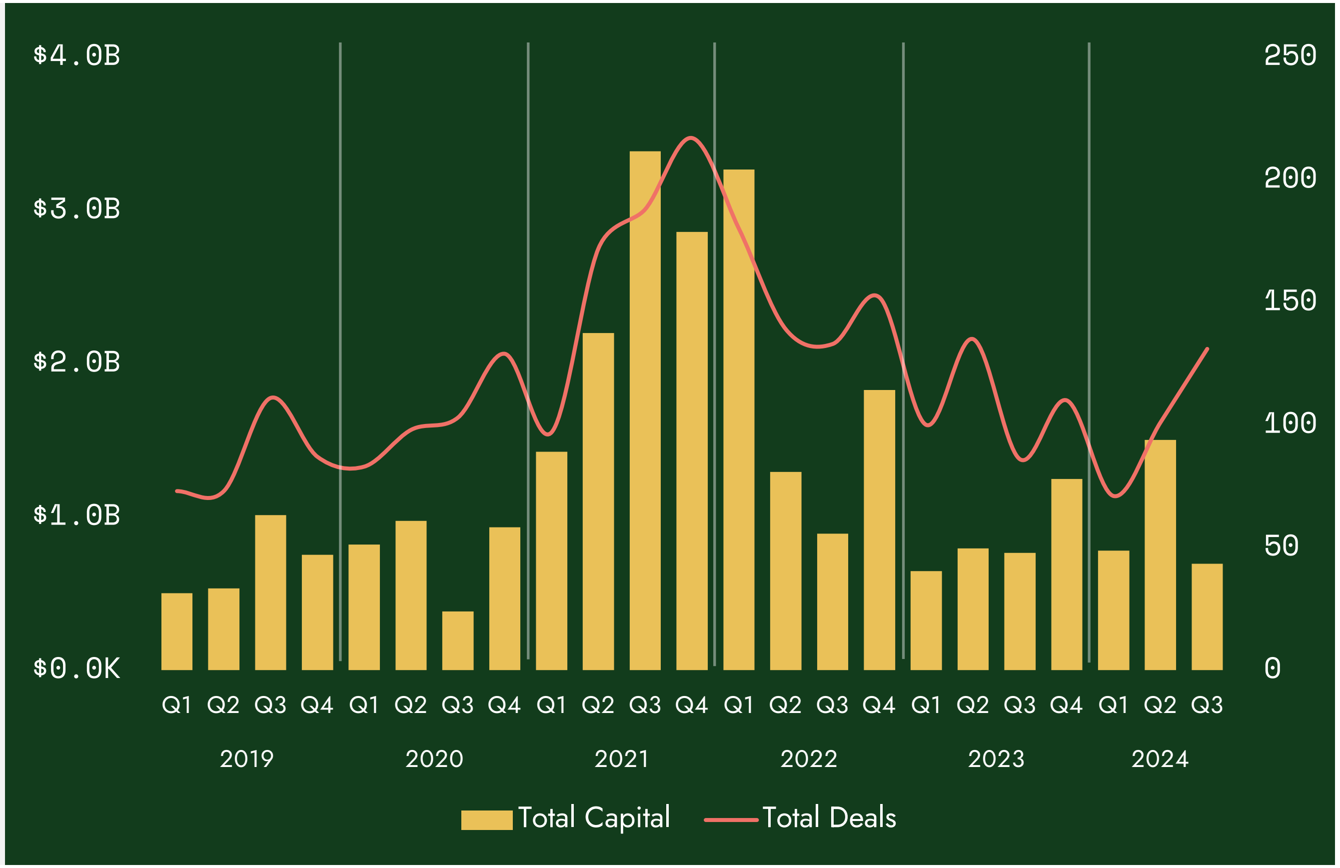
In Q3 2024 Australian startups announced

$695M

Capital raised across

92 venture deals

39 accelerator rounds



PARTNER INSIGHT:

KEY FINDINGS FROM 'FUNDING THE FUTURE SURVEY'

HSBC Global Research

The HSBC Global Research "Funding the Future Survey" published in August 2024 provides an in-depth analysis of current trends in venture capital and high-growth sectors such as technology and healthcare. The survey, conducted in July 2024, involved 200 market professionals, managing a total of US$1.93 trillion in assets, with US$630 billion from private equity and VC investors.

Key Findings

1. *Short-Term Concerns, Long-Term Optimism:*

While 40% of VC investors expect market activity to pick up in the next quarter, this figure has decreased from 52% in April 2024. However, a more extended outlook reveals optimism, with 75% of respondents anticipating increased activity over the next 12 months. Most investors (94%) expect fundraising conditions to either improve or remain stable, buoyed by expectations of lower interest rates, which positively impact fundraising trends. Notably, 59% of VC investors now have a more favourable outlook on public equities, although only 49% of listed investors share a bullish stance on private equities.

2. *Interest Rates as a Tailwind:*

The financial sector, particularly the VC/IPO/PE ecosystem, is now benefiting from the interest rate environment, which has pivoted from being perceived as a headwind in April to the most significant tailwind in this survey. Both public and private investors in financials expect these rate changes to impact their investments more than in other sectors.

3. *Increased IPO Activity and Exit Plans:*

The survey indicates that more VC investors (63%, up from 52% in April) anticipate higher IPO activity in the coming year, particularly in sectors such as artificial intelligence (AI). A large percentage of VC investors (80%) plan to exit their investments in the coming year, with buyouts and trade sales as preferred avenues. European listings are gaining traction, with 24% of investors favouring them, up from 14% in April, though the US remains the preferred listing.

4. *Sectoral Focus – Technology and Healthcare:*

TECHNOLOGY: Both VC/PE and listed investors are highly interested in AI, cloud, data centres, and semiconductors, with these sectors benefiting due to their enabling role in AI development. Tech VC investors focus increasingly on early-stage investments, extending monetisation timelines. Lower interest rates are seen as advantageous for tech sectors, particularly data centres, electric vehicles (EVs), and semiconductors. However, both VC and listed investors perceive valuations in tech as a potential risk.

HEALTHCARE: The healthcare sector continues to attract investment from both VC and listed investors. Biopharma, particularly oncology and metabolics, stands out for attracting significant capital flows. Investment considerations vary, with VC investors emphasizing technology as the primary driver while listed investors focus on growth potential. Although 54% of listed healthcare investors expect an increase in deal volumes over the next six months, 66% believe this will not result in a change in asset prices.

5. *US Elections and Policy Shifts:*

Ahead of the US elections in November 2024, investors are highly focused on trade policy, the Inflation Reduction Act (IRA), and VC regulations. Many anticipate increased tariffs following the elections, further shaping the investment landscape.

6. *Limited Partners and Fundraising Challenges:*

The competitive fundraising environment is prompting LPs to be more discerning in their commitments, leading to selective capital allocation. High-net-worth individuals and sovereign wealth funds have been the largest categories of LPs increasing funding in VC investments over the past 12 months, while pension funds have reduced their funding. Access to LPs and attracting new investors remain primary challenges for VC investors.

The "Funding the Future Survey" reveals a measured optimism among VC and high-growth sector investors. Despite more cautious outlook as investors grapple with ongoing economic and monetary uncertainties in the US, the longer-term view remains optimistic supported by anticipated interest rate cuts. Technology and healthcare remain key areas of focus, with specific subsectors like AI, cloud services, and biopharma receiving significant attention. Investors are also preparing for potential impacts from upcoming US elections, and they remain watchful of the evolving global economic landscape.

PARTNER INSIGHT:

DUE DILIGENCE TIPS FOR STARTUP CAPITAL RAISINGS

CORRS CHAMBERS WESTGARTH

Due diligence is the process of investigating and verifying information about a company or investment opportunity, and may include financial, tax, legal, HR, operational and commercial due diligence.

It is usually a critical part of the startup fundraising process and, if done well, it can help to build trust and credibility with potential investors. For early-stage companies, legal due diligence in particular can make or break a potential funding deal, so it is important to be prepared.

Due diligence in a capital raising context

Due diligence in a startup capital raising context is often very different from due diligence which is undertaken for M&A transactions. Specifically:

How much due diligence? The level of due diligence conducted by investors will largely depend on the stage of the startup. Startups at the seed stage can typically expect a less rigorous diligence process, while more established companies in later rounds involving sophisticated VC investors can expect a more comprehensive due diligence process. Startups should therefore bear in mind that the level of preparation required for due diligence may increase each time they raise new capital.

Who is doing due diligence? Due diligence will typically be undertaken by one lead investor, with their due diligence findings sometimes being shared with new co-investors on a non-reliance basis.

What type of due diligence? While M&A transactions typically involve extensive due diligence, including an emphasis on post-completion integration matters, capital raising due diligence often has a narrower focus on key areas. For example, investors will usually focus on the following areas in legal due diligence:

- capital structure, including the dilution impact of any SAFEs, convertible notes or options on issue;
- key customers, suppliers and other stakeholders;
- details of any previous capital raisings and associated documents;
- intellectual property owned or licenced by the company; and
- employees and independent contractors, including remuneration and incentive arrangements.

Preparing for due diligence

Some practical steps that startups can take to prepare for due diligence include:

- review due diligence checklists to understand the type of information you will be expected to provide to potential investors;
- set up a virtual data room having regard to due diligence checklists, your data room for the last round and any new material information since your last round; and
- ask your advisers to review the data room to test for any material gaps.

Consequences of a poor due diligence process

While due diligence is usually a key step in the process of securing new funding to grow your startup, a failure to adequately prepare for due diligence could lead to the following consequences:

- no deal: investors may lose confidence in the founders and the information they are providing; and
- warranty claims: if investors proceed based on incomplete or incorrect due diligence information, this could result in future warranty claims against the company, which can have both financial and reputational costs.

Finally, due diligence can also be a good "health check" exercise for companies, which may have benefits for them beyond the capital raising process itself.

PARTNER INSIGHT:

HOW AUSTRALIAN BUSINESSES CAN UNLOCK NEW REVENUE OPPORTUNITIES THROUGH COMPLIANCE

Jonathon Coleman
APAC General Manager
Vanta

The compliance landscape in Australia has been rapidly evolving, with increasing expectations on businesses to adhere to security and compliance. As the latest Privacy Act reforms pave the way for more legal action for serious breaches, businesses, especially startups looking to scale and grow, must bake in security as part of their go-to-market initiative.

Compliance is now key to demonstrating trust and meeting customer and partner expectations. While startups often think compliance is just about certification, the truth is it's far more than that. When digital threats have never been more worrying, businesses need to ensure that they're genuinely taking care of security on an ongoing basis, and not just because they want a piece of paper showing they gave compliance their full focus for a two-week audit.

But compliance traditionally hasn't been easy. It's been time-consuming, resource-intensive and complex, meaning businesses often push it to the bottom of their priority list. But in today's business landscape, with increasing risk, compliance is quickly making its way up that priority list. So, what should businesses do about it? Here are three pieces of advice for taking care of compliance efficiently.

1. Move now - the early bird catches the worm

Many early-stage startups in their pre-seed or seed stage are often unaware of their compliance requirements, but this is the perfect time while they're small to get things right from the start. By baking in compliance from the beginning, while both the business and product are in their infancy, it becomes easier to maintain compliance as the business grows. Crucially, though, compliance at an early stage can help unlock revenue-generating business opportunities. Much of today's business crosses borders, and many large enterprises overseas require their startup partners and suppliers to be compliant with various controls before they'll even consider starting a business conversation. So by getting certified quickly, startups can jump straight into real discussions about how they can add value to their larger enterprise customers.

2. Automate the cumbersome processes

Scaling a business is not easy, but when momentum grows for a startup, particularly once they reach Series A and beyond, compliance traditionally becomes more cumbersome — especially if it's a manual endeavor and startups are time-poor and resources-scarce — which often inhibits further growth.

But automation can be an incredibly powerful way to ensure compliance, without taking up much time or needing large teams to complete. Supporting 30 leading security and privacy frameworks, like SOC 2, ISO 27001, HIPAA, Essential Eight, CPS 234 and more, Vanta's platform automates up to 85% of the compliance process by gathering the evidence businesses need to prove compliance and stay compliant continuously using artificial intelligence. At the same time, the platform simplifies policy creation and management with templates, a step-by-step policy builder to guide customisation and employee acceptance tracking.

By building an automated, scalable security and compliance program, businesses can easily maintain an ongoing security posture, all while freeing up resources for more strategic security initiatives.

3. Prepare to align with non-Australian standards

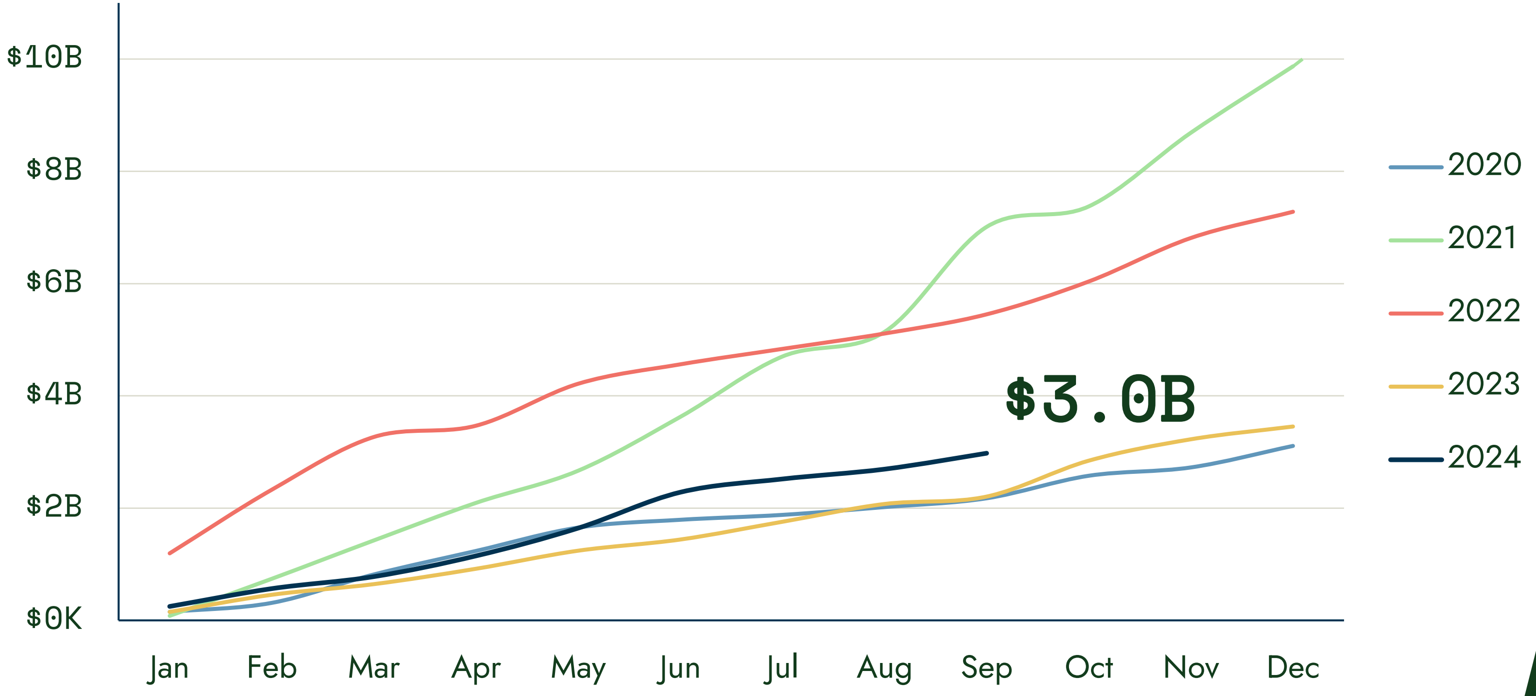
As mentioned earlier, many startups now aim to expand globally. But wherever they expand to, they need to adhere to the frameworks of those regions, like the General Data Protection Regulation (GDPR) in Europe or SOC 2 in the US. Vanta guides businesses through regional compliance standards, eliminating the need for countless legal research and consulting hours. By doing so, businesses can focus on growth, not regulation.

Vanta's GDPR controls, for example, undergo rigorous internal and external reviews and are frequently updated to reflect changes to requirements.

As more and more businesses become borderless, standardisation and accountability within the cybersecurity space are key for Australia to compete at a global level. By taking a proactive approach to compliance, startups and scaleups at different stages of growth can improve security posture, reduce risk, and streamline security operations - all while staying compliant, and driving business outcomes.

TOTAL CAPITAL RAISED

The second half of 2024 began much like the first, with total funding dropping considerably compared to the previous quarter. Although total deal announcements were higher than in recent quarters, the absence of mega rounds meant funding lacked the sporadic boosts seen when a few late-stage deals exceed $100M. Outside of Accelerator announcements, the most deals occurred at the Seed stage, accounting for a third of all announcements; Series A and Series B+ deals combined also comprised a third. Overall, 2024 is on track to finish as the third-largest funding year on record, needing just under $500M in Q4 to surpass 2023. No pressure!



INVESTOR INSIGHTS

"We're seeing plenty of applications coming in at the top of the funnel, but everything below that is moving pretty slowly. My sense is there's less competition fighting over deals, and investors are well aware of it. The market feels like it's treading water – with neither investors nor founders showing much urgency to push deals forward."

"There are crazy prices being paid in early-stage AI deals at the moment. It makes me nervous, but I'm glad some of our local founders are being given a shot to compete."

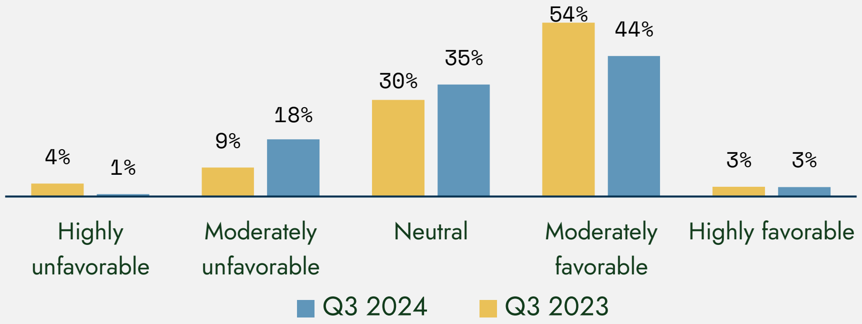
Investors
Investor Sentiment Survey
September 2024

INVESTOR INSIGHTS: DEAL ACTIVITY

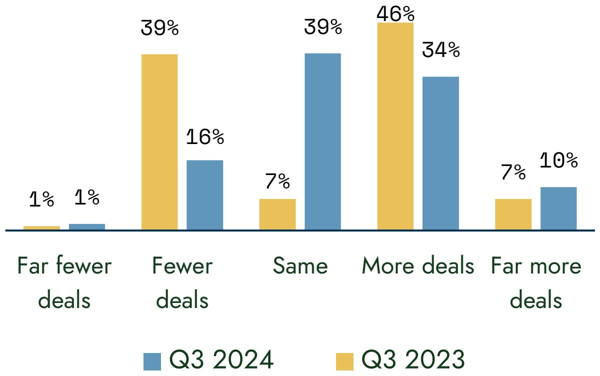
What are your team's top priorities for the quarter ahead?

1. Invest in new startups
2. Ensure current portfolio is well capitalised
3. Fundraising from LPs
4. Marketing and business development
5. Internal firm initiatives

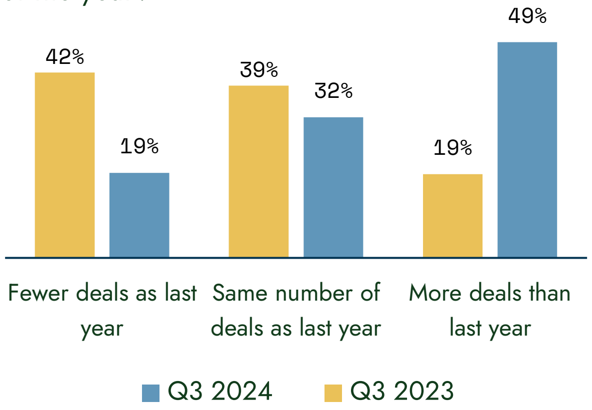
Compared to this time last quarter, how would you describe the current state of the startup funding market?



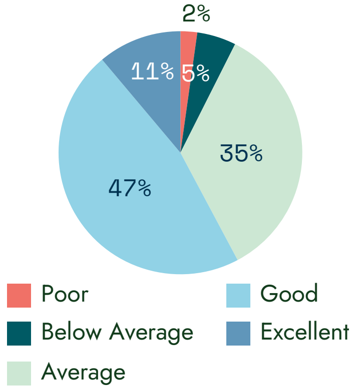
Compared to this time last quarter, how would you best describe the volume of new deals your team is assessing?



What do you believe will best describe your teams deal activity for the remainder of the year?



How would you rate the quality of deal flow in the current market environment?



"Historical data highlights that the current market cycle is an optimal time to be deploying capital for outsized returns."

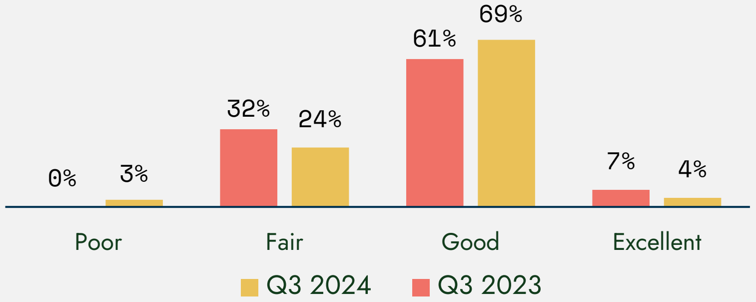
"As the state of affairs in the US improves, I think there will be a knock-on effect in Australia.

Investor confidence is returning, and the quality of founder is also, so, while there will still be areas of pain – better times are coming"

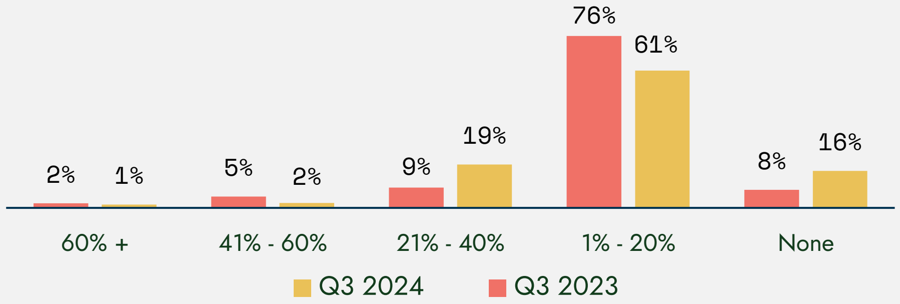
Investors
Investor Sentiment Survey
September 2024

INVESTOR INSIGHTS: PORTFOLIO

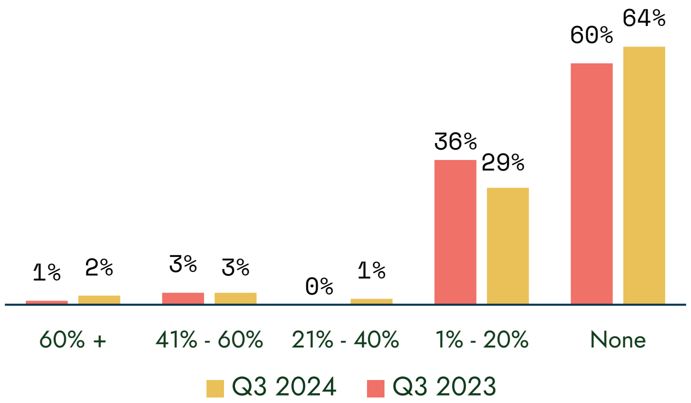
How would you rate the overall health of your current portfolio companies?



What percentage of your portfolio companies have had to lay-off staff this quarter or plan to?



What percentage of your portfolio companies took on venture debt this quarter?



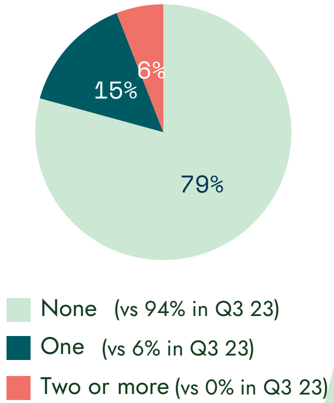
Give market conditions, what is the most common recommendation you've given to founders about their fundraising approach?

31% Raise a bridge round from current investors (vs 43% in Q3 23)

49% Raise as normal (vs 29% in Q3 23)

19% Delay fundraising (vs 28% in Q3 23)

How many of your portfolio companies forced to shut down this quarter?



"While the lion share of our portfolio is now performing well, many companies are still challenged.

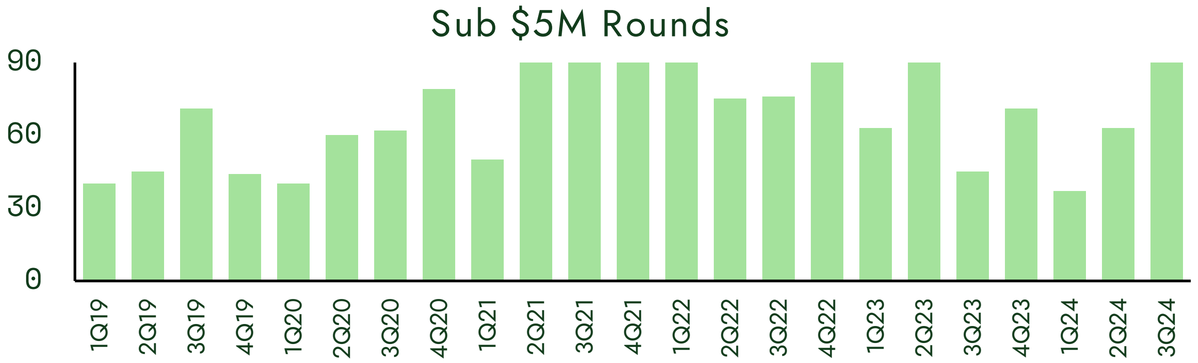
A group of companies remains stuck below $10M ARR, growing at a rate slower than what is needed for a successful next raise. Many have already cut costs as much as possible.

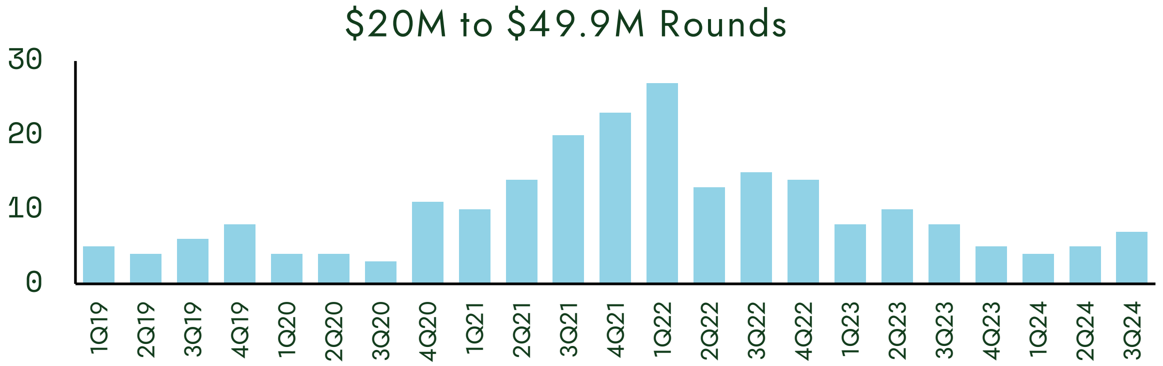
Board discussions are focussed on finding alternative funding plans to ensure that these companies survive."

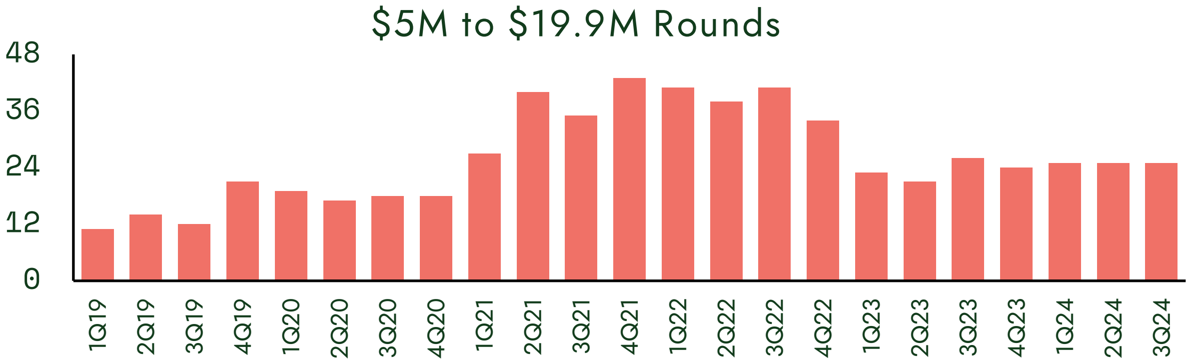
Investors
Investor Sentiment Survey
September 2024

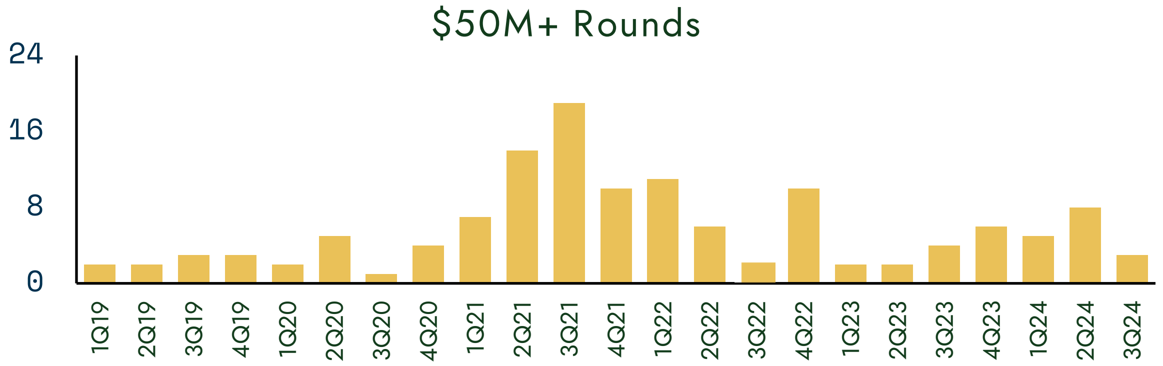
HIGH VOLUME AT SMALL & LARGE ENDS OF TOWN

The rollercoaster of 2024 continued, with deals under $5M, including Accelerator rounds, soaring to their highest level in over a year. With Accelerator announcements in full swing, 39 new early-stage startups were revealed to be joining programs both locally and abroad. Similarly, deals in the $5M to $50M range saw a slight increase compared to the previous quarter, marking the strongest quarter in a year. In contrast, mega-rounds exceeding $50M dropped to their lowest level since Q2 2023, with no deals over $100M being announced.



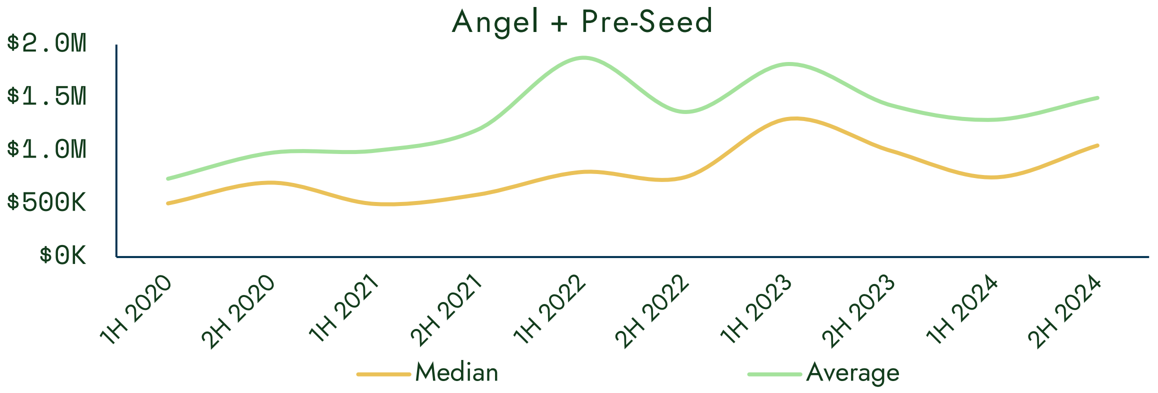


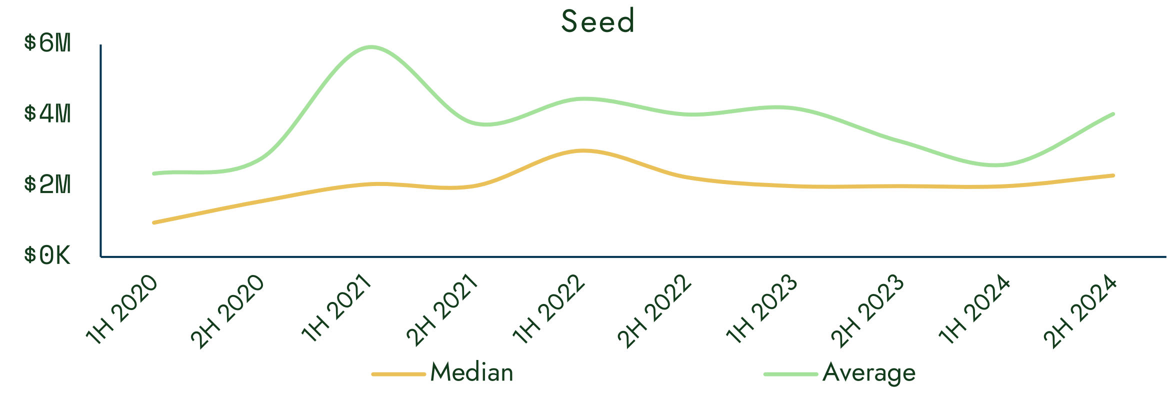


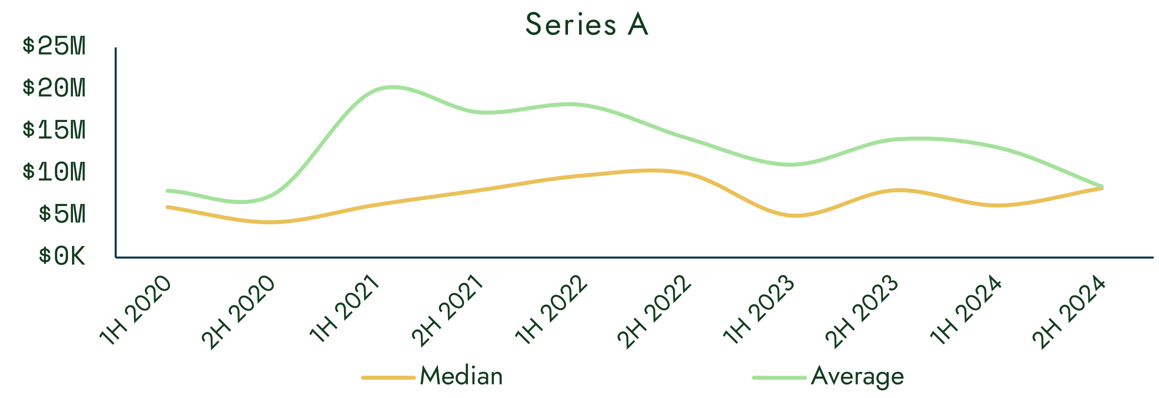


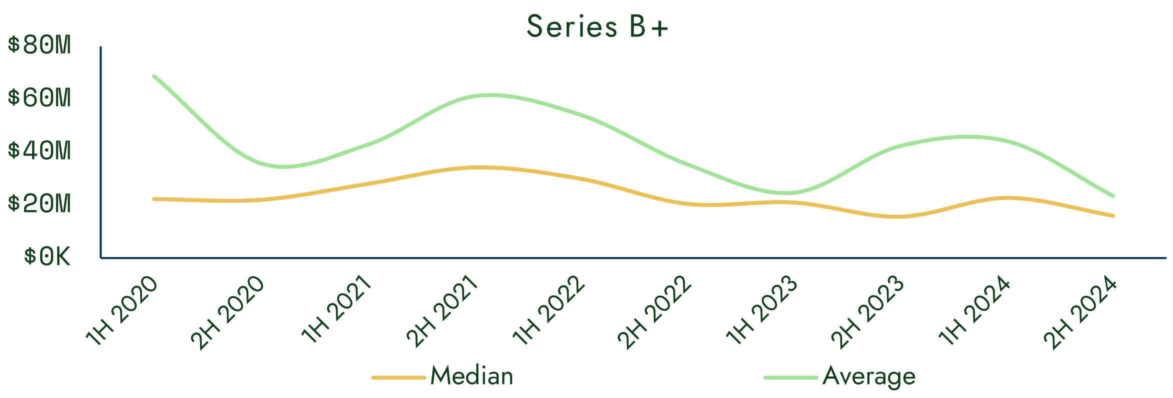
CHANGE IN ROUND SIZES

The decline in outlier deals at Series A and later stages has brought median and average deal sizes closer than they've been in years. Median deal sizes across all stages remained steady, aligning with recent Investor Sentiment Surveys, which suggests that valuations have stabilised over the past few quarters. The most significant outlier deals were at the Seed stage in Q3, with Kismet announcing a topped-up Seed round of $32.5M, alongside notable rounds from Lombard and Redactive AI. These large Seed deals widened the gap between average and median deal sizes to the widest it's been in over a year.





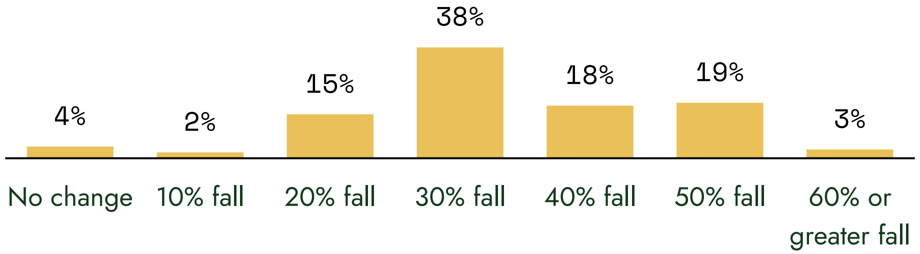




VALUATIONS

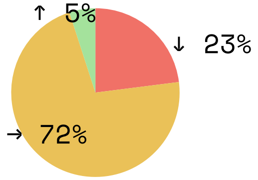
INVESTOR INSIGHT:
For deals at the {>>>} stage, what is your best estimate of the valuation change from peak pricing?

Pre-Seed + Seed

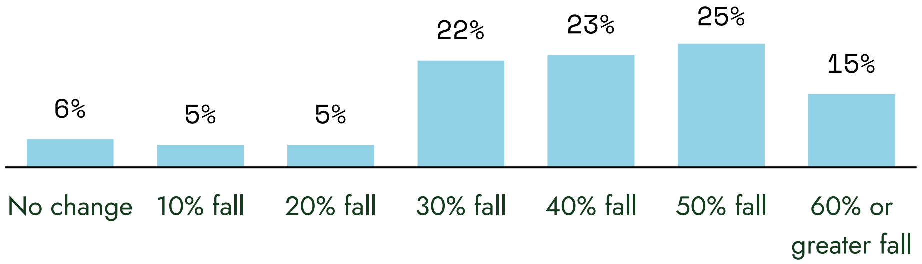


Average fall
33%
vs 30% in Q2 24

Compared to Q2 valuations have

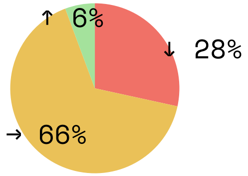


Series A + B

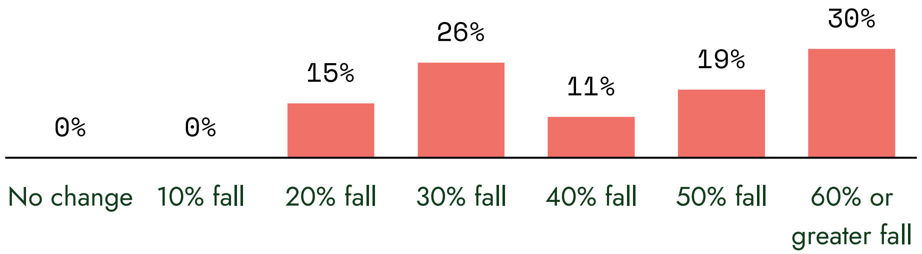


Average fall
39%
vs 39% in Q2 24

Compared to Q2 valuations have

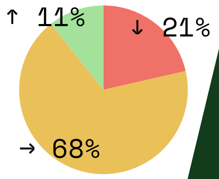


Series C+



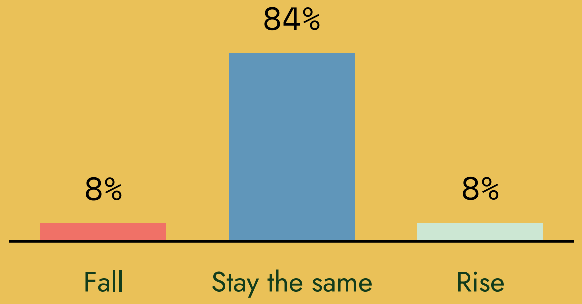
Average fall
42%
vs 42% in Q2 24

Compared to Q2 valuations have



Cut Through Venture Investor Sentiment Survey September 2024

What do you believe will happen to valuations for the remainder of the year?



Cut Through Venture Investor Sentiment Survey September 2024

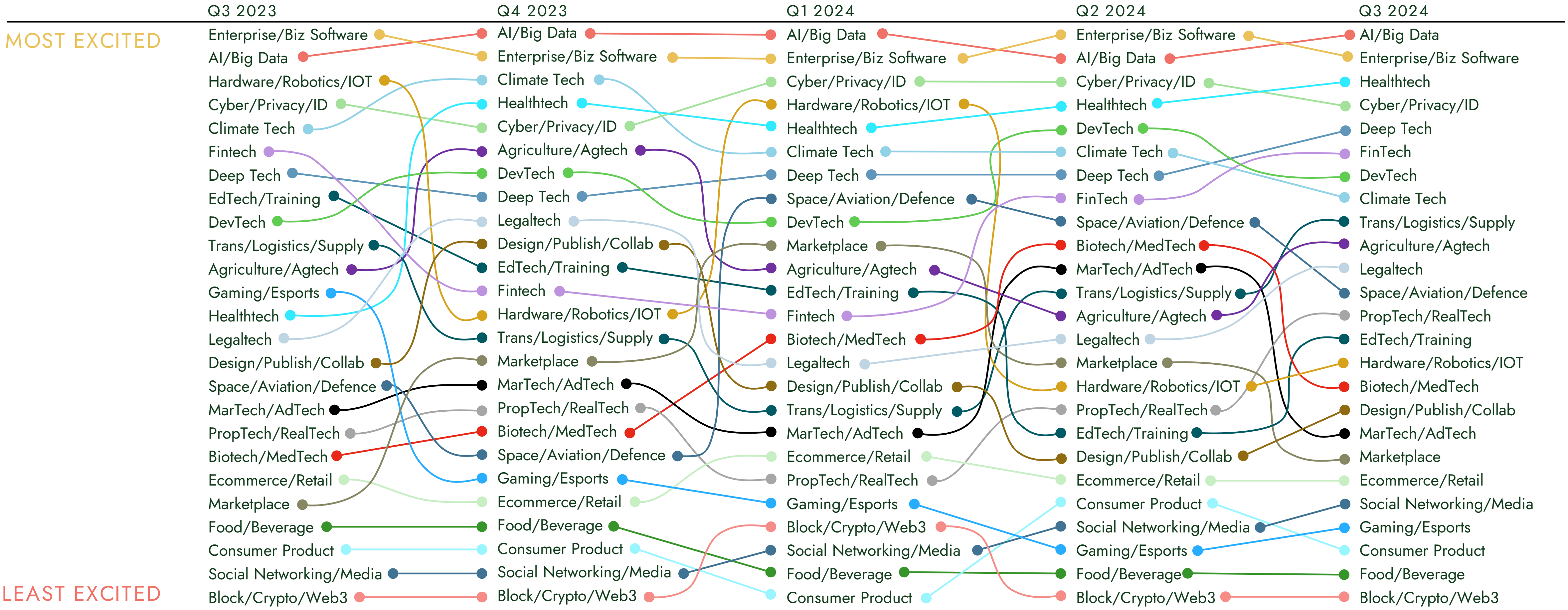
INVESTOR INSIGHT

"In pure software deals, valuations seem to have stabilised, though the range of multiples remains broad—largely influenced by the company's growth rate and the market it's chasing. Over the past six months, we've seen SaaS deals ranging from 3 - 8x ARR, with a few outliers, most of which are playing the AI thematic."

Investor
Investor Sentiment Survey
September 2024

SECTOR SHIFTS IN POPULARITY

INVESTOR INSIGHT: Which sectors are you most / least excited about?



Cut Through Venture Investor Sentiment Survey

ECOSYSTEM PERSPECTIVE:
AUSTRALIA CAN BE A DEEP TECH SUPERPOWER

Phil Morle
Partner
Main Sequence

SaaS startups work with bits. Deep tech startups work with raw materials like atoms, cells, proteins and photons. They build products like factories, rockets, food and semiconductors. Deep tech startups bring the innovation, ambition and approach to risk that venture capital has pioneered over the past 20 years to the material challenges we have on Earth today. Climate change, food security, and pandemics can't be solved with bits alone.

Most deep tech ventures are naturally more expensive and take longer to build. At first blush, they are a preposterous idea for venture funds with ten-year life cycles to contemplate. But this is what venture capital was created for. Without it, the first venture-funded company, Fairchild Semiconductor, would never have happened. We have forgotten that this is what ad/venture capital was invented for. Venture leans into the risk with a plan for removing it. Venture slashes long timelines with a plan to accelerate. Venture finances the businesses through a deliberate strategy for partnership across the capital stack.

Deep tech ventures are not only possible, they are thrilling in their ability to create a meaningful impact. We just can't build these companies like we would a SaaS company.

The DNA of deep tech

Deep tech can be software, but it still needs to be 'deep'. There is nothing deep about taking a pre-existing set of Python libraries to string together a new customer proposition. In deep tech, we are looking for the original inventors who have built the core of an innovation that others thought impossible.

At the same time, we're acutely aware that Australia is experiencing a deep tech identity crisis. The term 'deep tech' itself faces a branding challenge – ask ten people, and you'll likely get ten different definitions. This ambiguity extends to companies themselves, with many unaware they're operating in the deep tech space or how embracing deep tech could revolutionise their operations. But in reality, deep tech is everywhere.

For us, it's not just about robots and quantum computing; it's about harnessing cutting-edge science and engineering to tackle complex problems. We're talking AI, advanced materials, biotechnology – technologies so novel and intricate that achieving basic functionality is a monumental feat, let alone creating a marketable product.

But here's the exciting part: these seemingly sci-fi technologies are infiltrating every sector imaginable, from agriculture to climate to health. They represent the absolute bleeding edge of innovation, we just need to ignite those 'lightbulb moments' for founders.

Unlocking deep tech's superpower

While we may have a deep tech identity crisis – *we also have a deep tech advantage*. Deep tech companies have a 'moat' around their invention which comes from the work it took to discover it. When innovators cross the treacherous ground of discovery to make the whole thing work, it is difficult ground for others to cross. Here lies the commercial advantage of a deep tech company. A risky journey for sure, but valuable and sheltered from competition on the other side.

We've got world-leading research and engineering talent. We grow millions of hectares of 'carbon' (plants) on the world's second-biggest agricultural landmass. We are in a powerful geo-political context both bonded with the US and closely trading with Asia. We have abundant sources of renewable energy in our wind and sun, not to mention all the resources in the ground for the components.

The entire supply chain of Earth will move over the next couple of decades driven by geopolitics and climate change. Trillions will be spent and new industries will rise in parts of the world that played no part in the current way of doing things.

Where will the Quantum Silicon Valley rise? As bio-production reveals a more sustainable method of production than fossil fuels, which countries will lead? When humans routinely travel into space or mine minerals from asteroids, where will the spaceports be? When drug discovery and trials can be dramatically reduced in cost and complexity using computing, will Australia play a bigger role?

We're in a window of time that will close eventually. I hope Australian founders, researchers, politicians and investors have the courage to bring it to life. By the looks of it, we do.

SECTOR SHARE OF FUNDING & DEALS

After leading the deal count in Q2 for the first time, Artificial Intelligence and Big Data deals dropped to fourth place in terms of deal volume and fell to tenth in total funding. Fintech, however, remained at the top of the funding table for the second consecutive quarter, accounting for four of the ten $20M+ deals reported. Meanwhile, Climate Tech continued to dominate in deal volume, although ten of the 23 announced deals in this segment were Accelerator rounds.

42% of funded startups in Q3 mention AI on their website.[1]

"Magically, just about every deal we're seeing at the moment is a company who claims to be in AI."

Investor
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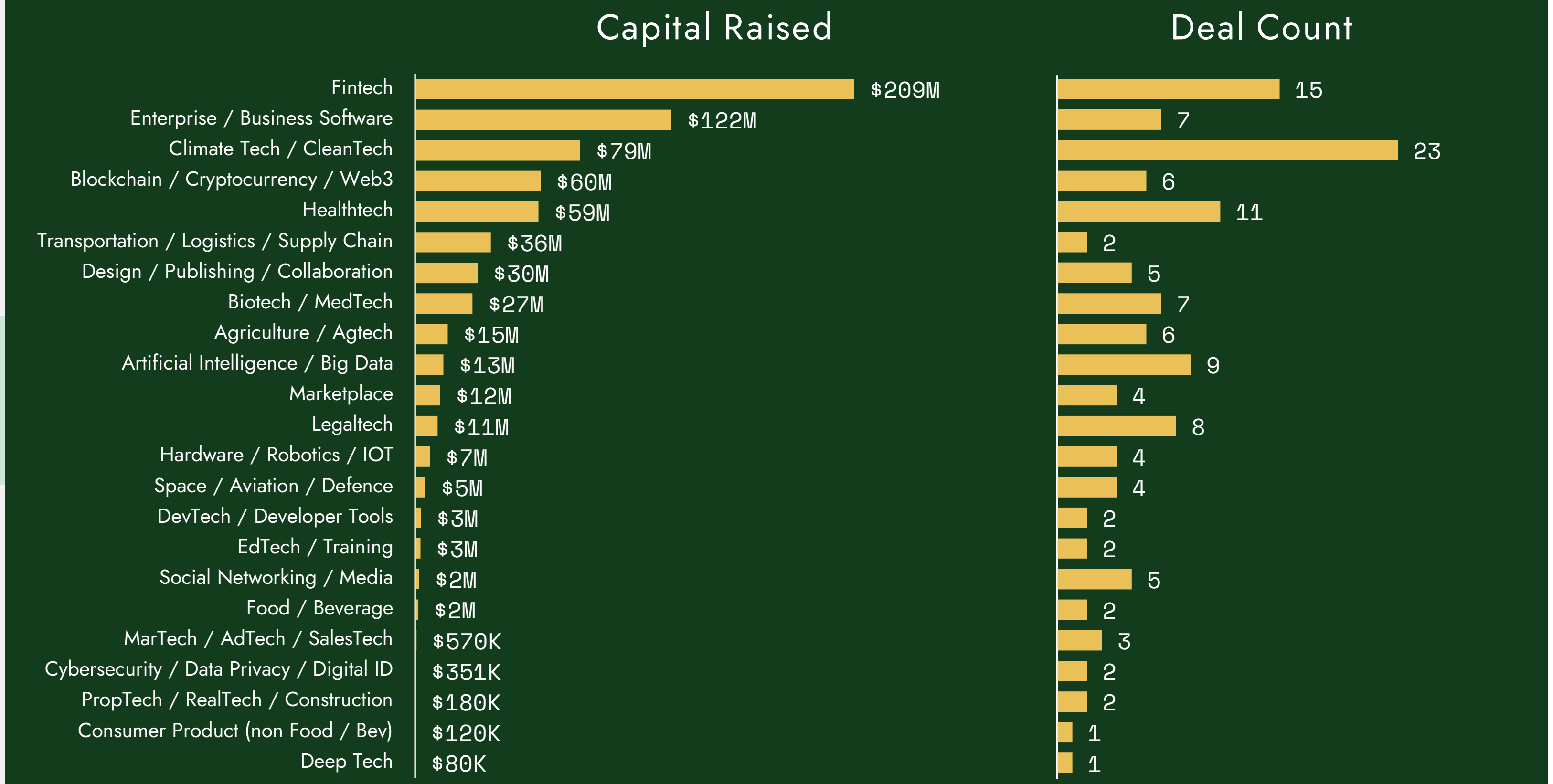
September 2024



1) Calculated utilising an AI agent created using OpenAI's GPT 4.0 API. The data was spot checked for accuracy, but not all company websites were checked by a human.

SECTOR FUNDING OVER TIME

Climate Tech / CleanTech reclaimed its top spot in the deal count rankings and reappeared among the top three best-funded segments. As noted in last quarter's Cut Through Quarterly, we expect that the presence of several well-funded, deep tech-focused funds, along with government-backed vehicles, will ensure this segment remain well-financed throughout the cycle. The usual suspects filled the remaining top spots, except for Blockchain/Crypto/Web3, which *mined* its way in the top five best-funded sectors for the first time.

Most Highly Funded Sectors

	Q3 2022	Q4 2022	Q1 2023	Q3 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
1	Fintech	Fintech	Fintech	Biotech/MedTech	Climate Tech	Enterprise/Biz Software	Cyber/Privacy/ID	Fintech	Fintech
2	Healthtech	Hard/Robot/IOT	Agriculture/Agtech	Healthtech	Ecommerce/Retail	Block/Crypto/Web3	Biotech/MedTech	Climate Tech	Enterprise/Biz Software
3	Food/Beverage	Biotech/MedTech	Hard/Robot/IOT	Fintech	Enterprise/Biz Software	Marketplace	Fintech	Biotech / MedTech	Climate Tech
4	Biotech/MedTech	Climate Tech	Marketplace	Climate Tech	Hard/Robot/IOT	Space/Aviation/Defence	Space/Aviation/Defence	Food / Beverage	Block / Crypto / Web3
5	Climate Tech	Food/Beverage	Biotech/MedTech	Hard/Robot/IOT	DevTech	Healthtech	Gaming/Esports	Hardware / Robotics / IOT	Healthtech

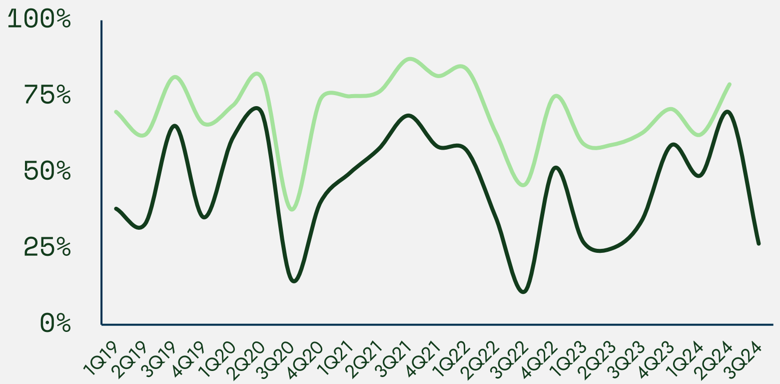
Most Deals by Sector

	Q3 2022	Q4 2022	Q1 2023	Q3 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
1	Fintech	Enterprise/Biz Software	Fintech	Fintech	Climate Tech	Climate Tech	Climate Tech	AI / Big Data	Climate Tech
2	Healthtech	Healthtech	Healthtech	Healthtech	Fintech	Fintech	Healthtech	Climate Tech	Fintech
3	Climate Tech	Climate Tech	Climate Tech	Climate Tech	Hard/Robot/IOT	PropTech / RealTech / Construction	= Biotech/MedTech, Enterprise/Biz Software, Hard/Robot/IOT, Fintech, Proptech	Biotech / MedTech	Healthtech
4	Marketplace	Biotech/MedTech	Marketplace	= EdTech, Biotech/MedTech, Enterprise/Biz Software, Hard/Robot/IOT	Healthtech	= Enterprise/Biz Software, Healthtech, Marketplace		= Healthtech, PropTech, Fintech	AI / Big Data
5	Biotech/MedTech	Fintech	Biotech/MedTech		Biotech/MedTech				Legaltech

LARGER FUNDING ROUNDS CLIMB

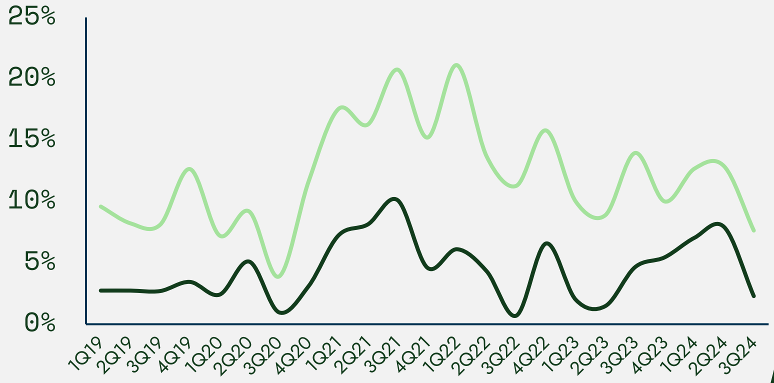
No deals exceeding $100M were announced during the quarter, apart from a false alarm in the construction tech space. This turned out to be a majority deal involving a secondary sell-down led by US private equity. Deals over $50M also fell to multi-year lows. There remains a significant backlog of startups that have raised at least $20M but have not announced a funding round since 2021 or 2022. This backlog suggests there is still substantial potential for larger deal announcements in the final quarter of the year. Last quarter, we mentioned that we weren't ready to declare the end of the mega-deal hiatus – this quarter, we remain cautiously optimistic about signs of a potential comeback.

% of Total Capital from Large Deals



Deals % of Total Capital from $20M+ Deals
Deals % of Total Capital from $50M+ Deals

% of Deals that were Large Deals



Deals % of Deals that were $20M+
Deals % of Deals that were $50M+

3 Average $100M+ deals per quarter in 2022.

1 Average $100M+ deals per quarter in 2023.

0 $100+ deals in Q3 2024.

INVESTOR INSIGHT

"It's encouraging to see larger rounds being announced, though many come with more complex deal structures favouring investors compared to the 2021 boom era.

This shift seems largely driven by increased participation from overseas funds and emerging local crossover PE funds, now targeting what would traditionally be late-stage venture opportunities.

If deal structure gets the deal done, it's not necessarily a negative, but the devil is in the details when considering the headline figures that hit the press."

Investor
Investor Sentiment Survey
September 2024

30 LARGEST DEALS OF Q3 2024

SafetyCulture led the charge, raising $75M in primary capital and $90M in secondaries for existing investors who've been involved since it's early digital checklist days. Fintech featured heavily among the top raises, alongside Healthtech, Transport/Logistics, and Blockchain/Crypto. The surprise round of the quarter came from Kismet, which announced a topped-up Seed round of $32.5M—making it the fifth-largest Seed round in our records, and the largest since 2021.

SafetyCulture	GROW INC.	InDebted	shift	kismet	Drift
Enterprise / Biz Software	Fintech	Fintech	Fintech	Healthtech	Blockchain / Crypto / Web3
$75M	$60M[1]	$50M	$35M	$33M	$25M
Series F	Series D	Series C	Series D	Seed	Series B

Startup	Sector	Round	Stage
Apromore	Enterprise / Business Software	$23M	Series B
Dash Technology Group	Fintech	$22M	Unknown
Evolt360	Healthtech	$20M	Series C
Splend	Transportation / Logistics / Supply	$20M	Unknown
Allegro Energy	Climate Tech / CleanTech	$18M	Series A
Hapana	Enterprise / Business Software	$17M	Series A
Lombard	Blockchain / Cryptocurrency / Web3	$16M	Seed
Sendle	Transportation / Logistics / Supply	$16M	Series D
Kinoxis Therapeutics	Biotech / MedTech	$15M	Series B
JigSpace	Design / Publishing / Collaboration	$13M	Series B
Redactive AI	Artificial Intelligence / Big Data	$12M	Seed
Tactiq	Design / Publishing / Collaboration	$11M	Series A

Startup	Sector	Round	Stage
Eco Detection	Climate Tech / CleanTech	$10M	Series A
KC8 Capture Technologies	Climate Tech / CleanTech	$10M	Series A
InvestorHub	Fintech	$9M	Series A
Rich Data Corporation	Fintech	$9M	Series B
InterEarth	Climate Tech / CleanTech	$8M	Series A
Renewable Metals	Climate Tech / CleanTech	$8M	Seed
Slice	Fintech	$8M	Seed
Inform Ag	Agriculture / Agtech	$7M	Series A
Number 8 Bio	Biotech / MedTech	$7M	Seed
Bitstaker	Blockchain / Cryptocurrency / Web3	$6M	Series A
Cuttable	Design / Publishing / Collaboration	$6M	Seed
ExoFlare	Agriculture / Agtech	$5M	Seed

(1) Deal reported in Australian Financial Review on July 18, 2024. Details of the deal were not confirmed by a second source. If further information becomes available that shows the details of the deal differed, it will be altered in the Cut Through Venture data set.

ECOSYSTEM PERSPECTIVE:
REFRAMING THE DISCUSSION ON SECONDARY PRICING

SecondQuarter

David Moss
Investor
Second Quarter

In an environment where the demand for liquidity is high, secondaries have become a popular topic. Funds face pressure to return capital to their LPs, while employees and shareholders contend with cost-of-living pressures. This coincides with a time where the environment for growth is severely challenged and exit volumes remain muted. Secondaries pricing has therefore become a focal point, with discussions on "discounts" at its centre.

It is widely understood that secondary transactions trade at discounts to a company's last financing round. We are sometimes asked what the "right" discount is in the current environment. If you are trying to understand how secondary pricing really works, we think this is the wrong question.

The last round is an imperfect reference

The roots of this misconception lie in the way we tend to frame secondary pricing as always being with reference to the last round. One reason we think this framing is inadequate is because price discovery in venture happens over very long periods of time, so a lot can change between pricing events.

A quick thought experiment applied to the public markets may help illustrate the point. The BVP Cloud Index peaked at 3,000 in 2021. Suppose that, without following its share price, you bought it today at the current price of 1,500. Would it be correct to say you managed to get the index at a 50% discount? Of course not, you simply purchased it at the market price.

But this is the misshapen logic we tend to apply to discussions about secondaries. Simply looking at pricing in this lens provides little insight into what we believe is the more important question: what drives changes in secondary pricing. The answer involves a combination of company performance, its capital structure, shifts in the valuation environment or the supply of liquidity.

The last round price can sometimes be a useful starting point if it was set recently. However, its signal weakens over time with changes to business fundamentals and the broader environment. For example, a valuation set for a rapidly growing business 24 months ago is unlikely to reflect its true market value today. And valuations set in 2021 quickly fell out of step with prevailing levels just 12 months later in what was a structurally different market environment.

A different framework for secondary pricing

If pricing involves factors unrelated to the last round, we need a different way to think about how to value companies in a secondary transaction. We find it is useful to separate discussions of secondary pricing into two parts:

1. What is a fair market price for the business.
2. Should a discount be applied for the class of share being purchased.

The first component involves a subjective assessment of the company's current value independent of its last round price.

This helps to re-anchor valuation in current performance and market conditions. We then consider what class of shares we are buying and whether a discount is needed based on how the rights and protections compare to other classes of equity and debt.

In venture-backed companies, not all shares are created equal. Headline valuations refer to the implied value of a company based on the price of shares issued in the most recent round. Often these are preference shares, which include certain attributes that make them more attractive. A common example is a liquidation preference, which entitles investors to (most often) at least 1x the money they invested on an exit in priority to other shareholders. With this sort of downside protection, preference shares are generally viewed as less risky, and therefore more valuable, to investors. Buyers therefore use discounts to reflect the relative risk-return tradeoff in the absence of these special rights.

All else being equal, a general heuristic is that discounts for low-ranking shares tend to be higher when the preference stack, or amount of preference shares in a company, is higher.

The final output of this process may result in a valuation that is higher or lower than the last round. But adopting this framework should improve the quality of discussions around secondary pricing and discounts in the current market.

ECOSYSTEM PERSPECTIVE:

EXITS FOR EVERYONE – THE NEW GAME IN TOWN

Flippa.

Blake Hutchison
CEO
Flippa.com

When we talk about entrepreneurship, the headlines often focus on unicorns and massive funding rounds. Yet, as growth and fundraising become more challenging, a crucial segment of the market is rapidly gaining traction—6 & 7-figure exits. These exits provide real, life-changing outcomes for many founders and entrepreneurs, and they play a vital role in the broader startup landscape.

The Importance of 6 & 7-Figure Exits in Australia

The narrative around entrepreneurship often glorifies billion-dollar valuations, but in reality, only a tiny fraction of businesses ever reach such heights. In Australia, for instance, just 2% of the 2.7 million businesses generate annual revenues in excess of $10 million. We are a nation of high-quality sub-scale businesses, and this is where smaller, yet significant, exits are taking place.

This market of 6 & 7-figure exits isn't just important for founders—it's critical for the health of the entire entrepreneurial ecosystem. These exits often allow founders to realize value from their businesses earlier, reinvest in new ventures, or even support local economies by reinvesting capital domestically.

Sub-Scale M&A: A Thriving but Undervalued Market

Despite the growing importance of this market, larger-scale M&A deals dominate the headlines. Each quarter, only a very small handful of Australian tech M&A deals make the press. This paints a picture of an industry that, while vibrant and obviously highly valuable for the entrepreneurs that run them and the investors that back them, is ignoring the vast majority of M&A activity.

The sub-scale M&A market is bustling with activity. End-to-end M&A Platforms like Flippa, which specialize in sub-scale business acquisitions, executed nearly 1,000 5-7 figure transactions in FY24 alone. These transactions spanned high-growth sectors like SaaS, e-commerce, apps, and tech media, demonstrating that smaller businesses are highly desirable acquisition targets.

Flippa's activity in this space is just one example of how vibrant the sub-scale M&A market is. While large transactions often garner more attention, it's these smaller deals that truly fuel entrepreneurship. They provide liquidity, offer exits for a broader range and diversity of founders, and help ensure the ongoing dynamism of the marketplace.

Why Buyers Are Flocking to the Sub-Scale Market

Why are buyers so interested in these smaller businesses? There are several compelling reasons:

1. Affordable scalability: many businesses in this range have untapped potential. Buyers can acquire them at a relatively low cost compared to larger enterprises, then leverage their own resources to scale the business quickly.
2. Diversification of revenue streams: for larger companies or private equity firms, acquiring smaller businesses offers a way to diversify revenue streams and mitigate risk.
3. Operational simplicity: smaller businesses are often more agile and operationally efficient, making them easier to integrate into existing portfolios. M&A at this size rarely fails.
4. Niche leadership: many of these businesses dominate specific niches, making them attractive to buyers who want to capture market share in specialized areas without competing with major players in broader markets.

Growing Buyer Liquidity

Another critical factor driving the sub-scale M&A market is the availability of buyer liquidity. There are more buyers and an abundance of 'dry powder.' In Australia alone, Flippa represents $2.8 billion in buyer liquidity from a combination of private equity, venture capital firms, and individual investors who are increasingly focusing on acquiring businesses that generate stable cash flow and present scalable opportunities, even if they are not billion-dollar companies.

A Call to Recognize the Sub-Scale M&A Sector

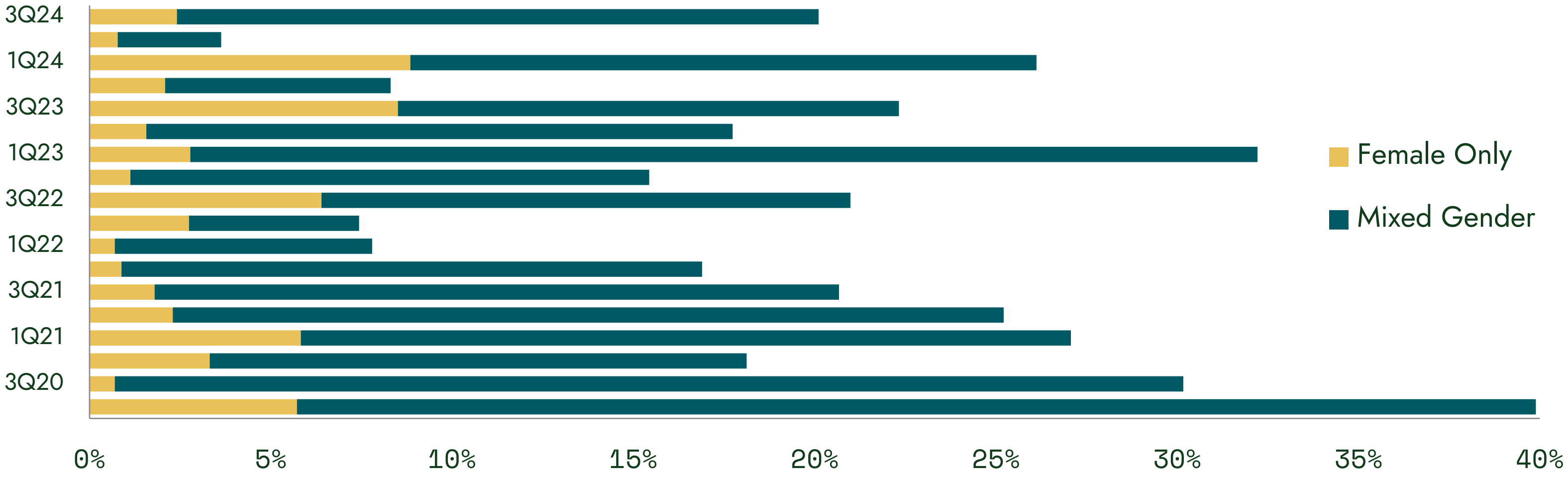
While unicorns and billion-dollar exits will always capture the most attention, the sub-scale M&A market is where much of the real action is happening. With only 2% of Australian businesses generating over $10 million in revenue, it's clear that the vast majority of entrepreneurial activity is taking place in the smaller end of the market. Platforms like Flippa provide proof that there is a thriving market for 5-7 figure exits. These exits provide valuable liquidity for the ecosystem and keep it thriving. After all, most VCs prefer repeat founders anyway...

As we continue to celebrate the billion-dollar exits, it's time we also shine a spotlight on the 6 & 7-figure deals that fuel the entrepreneurial engine here in Australia.

FUNDING TO FEMALE FOUNDERS

Following the Q2 slump, funding to female-only founded teams rebounded, aligning with the three-year average. Meanwhile, funding share to mixed-gender teams reached its highest level since Q1 2023. Notably, three startups with at least one female founder raised rounds exceeding $20M, doubling the total $20M+ deals recorded in both H1 20244.

Percentage share of total capital raised by female founders



Q3 2024 largest rounds by female founders

kismet	Drift	EVOLT	Tactiq	RDC RICH DATA CO
$33M	$25M	$20M	$11M	$9M
Seed	Series B	Series C	Series A	Series B

Percentage share of total capital raised by female founders

2024 YTD
13% at least one female
4% female only

2023
23% at least one female
5% female only

2022
10% at least one female
3% female only

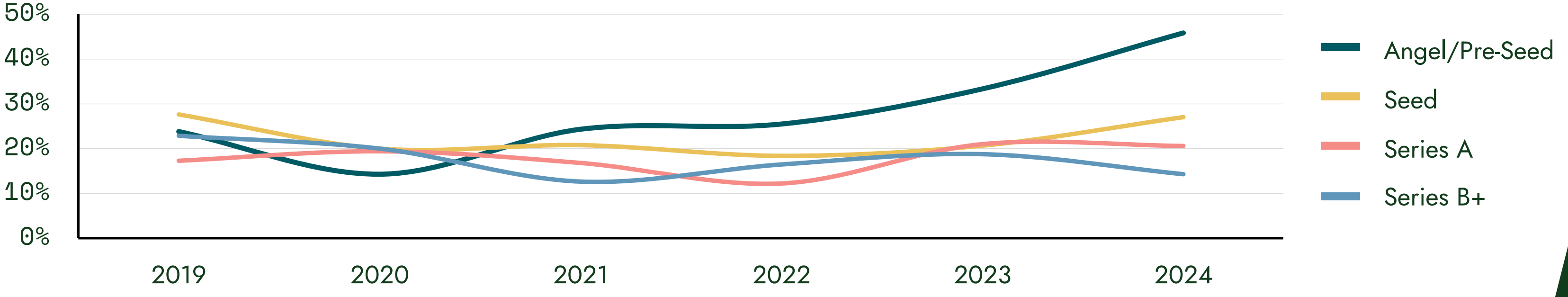
2021
21% at least one female
2% female only

2020
25% at least one female
6% female only

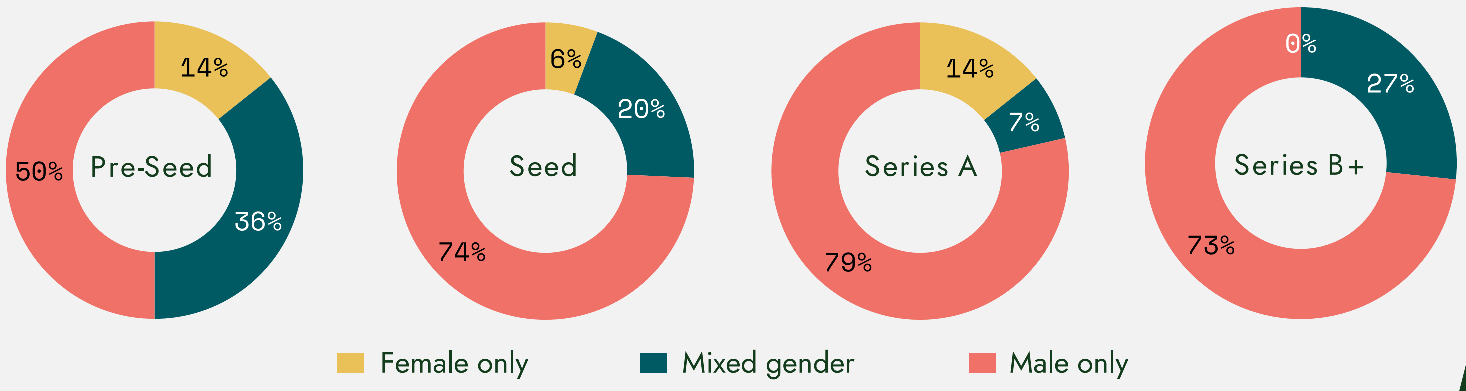
FEMALE FOUNDER DEAL PARTICIPATION

Outcomes for female founders at the Pre-Seed stage remained encouraging, with participation hitting a record level for the second consecutive quarter, making up 50% of reported deals. At the Seed stage, representation also reached a five-year high. Participation at the Series A and B+ stages saw a significant boost as well, well above the levels recorded in the first half of 2024. Additionally, 54% of Accelerator funding rounds included female founders.

Share of deals by teams with at least one female founder



Q3 2024 share of deals by teams with at least one women founder



Median deal size by gender

	All male	Mixed gender	All female
2024 YTD	$3.0M	$2.7M	$2.0M
2023	$3.0M	$1.0M	$0.7M
2022	$6.0M	$3.0M	$1.6M
2021	$5.0M	$2.9M	$2.5M

SUPPORTERS

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Corrs Chambers Westgarth is Australia's leading independent law firm. Corrs provides legal services across the full spectrum of matters, including major transactions, capital raisings, intellectual property, employment law and disputes.

Corrs has a cross-disciplinary team which has a deep understanding of the needs of startups and high growth companies. We act for both startups and a range of investors, including local and international venture capital funds, strategic investors and universities. We have experience advising from seed rounds through to larger raises and exits.

Corrs has also developed CorrsEdge, a cutting-edge online platform which gives start-ups the legal support they need at the early stage of their growth cycle. The platform offers access to over 30 intelligent legal documents with dynamic automation capabilities which enables users to generate bespoke documents and tailor them for their business. The Corrs Edge platform saves times and money, allowing startups to ensure that they have high quality legal documents without the typical costs of using a top tier law firm.

For more information visit corrs.com.au/capabilities/m-a-capital-markets/venture-capital-markets

HSBC

HSBC is one of the world's largest banking and financial services organisations, with assets of US$3,001bn as at 31 March 2024.

In Australia, the HSBC Group offers an extensive range of financial services through a network of 34 branches and offices. These services include retail and commercial banking, trade finance, treasury and financial markets, payments and cash management and securities custody.

HSBC works to support innovative companies to grow quicker, easier and more efficiently, by combining decades of experience banking startups with a global focus on technology coverage and an international footprint, including capabilities in 62 countries.

HSBC offers start-ups with a range of specialised banking services designed to meet the specific needs of innovative companies, including access to a range of APIs and digital payment solutions, the award-winning HSBCnet digital platform, and digital onboarding.

For more information visit business.hsbc.com.au/en-au/campaigns/technology

Or contact:

- Alan Watters | Director | Corporate Origination and Tech Sector Lead | Corporate Banking
  alan.watters@hsbc.com.au

SUPPORTERS

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METHODOLOGY AND DISCLOSURE

Startup funding data

Cut Through Venture provided the equity funding data in the report. Cut Through Venture gathers funding data from various publicly available sources, including ASIC filings, press releases, social media, and investor memos. Australian startup ecosystem participants, including investors and founders, also provide data directly to Cut Through Venture.

To be included in the Cut Through Venture data set, all deals must be validated by an investor or founder involved or via a press release citing parties to the deal. To be included as a funding event, the transaction must result in an infusion of capital into the startup in return for the investor taking equity in the business. Exits, grants, prizes, and secondary equity transactions are excluded from the data. Cut Through Venture uses publicly available information, including LinkedIn and company websites, to augment the deal data collected. This additional information includes information about the founder(s) of the startup and background information on the startup.

Survey data

Survey data was collected from venture capital firms, angel syndicate leads, and family offices.
135 participants completed the survey.

All survey responses were anonymous, and the survey collected no sensitive information. Participants were asked to self-select their gender identities and provide information related to their age, location, and background for analysis purposes. All questions were optional. Given the anonymity of the responses, it is not possible to validate their authenticity. The survey tool used was JotForm.

Disclosure:

This report was prepared based upon data and other information, from sources believed to be reliable, but Cut Through Venture does not warrant its completeness or accuracy. Any opinions and estimates constitute the judgment of the contributors as of the date of this material and are subject to change without notice. This report does not provide any financial product or investment advice, does not consider the investment objectives, financial situation or needs of any person and is not intended as an offer or solicitation for the purchase or sale of any financial instrument.

The editor of this report, Chris Gillings, is an investor at Five V Capital and Cut Through Angels. He may be an investor in some of the startups or a Limited Partner in some of the funds mentioned in this report.

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