April 2023

Cut Through Quarterly

AUSTRALIAN VENTURE CAPITAL FUNDING REPORT

Q1 2023

CUT THROUGH venture

1Q 2023

CUT THROUGH venture

AUSTRALIAN VENTURE CAPITAL FUNDING

$661M	82
TOTAL FUNDING	DEALS

6pillars.io, 13seeds, Alii, AI-NC, AMLAB, BLOOM, Cake., Cauldron, CarExpert, Cerebellum.Digital, chronicle, co-architecture, collectiveshift, COSMO INNOVATIONS, COMPLEXICA, DAS, DASH, DataMesh, docufen, DOWNSIZER, Eclipse AI, fable, FARMLAB, ferronova, Fingerprint for Success, FLOATSPACE, FLUX, FOODBYUS, FOREMIND, GeoMoby, getahead, GigaComm, grid mo, Hnry, IIF, INFOSECASSURE, Kapture, Kelpy, KOMMUNITY BREW, lanterne, Leesy, loam, LiveVerdure, LUMIANT, LENEXA MEDICAL, Lewi, MGA THERMAL, milo, Mindset, MUTINEX, myInterview, MoreGoodDays, networksx, nexl, OpenSolar, OUR COW Eat better meat, partington adv.eng, Partnar, pitcrew.ai, Pivot, PLAY TODAY., Polymath, Q-CTRL, QUANTUM BRILLIANCE, QUASARSAT, Remedy, Rumin8, RESONAIT Medical Technologies, send, shift, SimConverse, SpeeDx, SplootCode Beta, STRAAND, sumday, Beautiful Bunch, SWARM FARM ROBOTIC AGRICULTURE, Till., TOM, Torch RECRUIT, turnto, Unyoked, Vedi, VIRAL VENTURES

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INTRODUCING CUT THROUGH QUARTERLY

Welcome to Cut Through Venture's inaugural quarterly update, replacing our monthly report. Our new format allows us to offer a more in-depth and comprehensive analysis of the startup ecosystem. Our goal is to provide higher-level insights rather than frequent news digests, and this reporting cadence aligns with that objective.

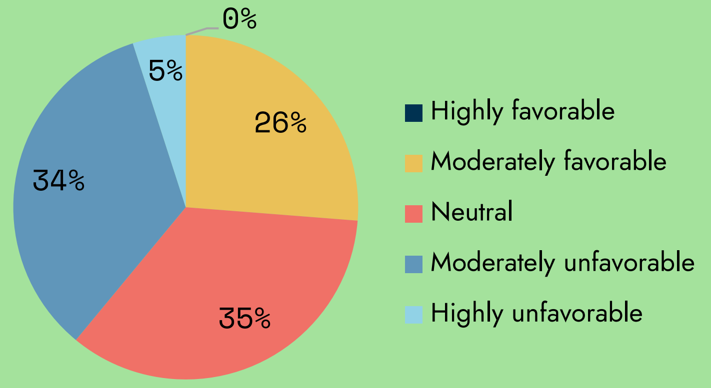
Cut Through Quarterly extends beyond ecosystem funding analysis to encompass investor insights gathered from our startup investor survey. We will conduct quarterly surveys to understand investor sentiment and identify additional insights not provided by funding data alone. The Q1 survey elicited responses from 141 startup investors. In addition to this change, our analysis will no longer cover equity crowdfunding.

Cut Through Quarterly commences amidst challenging times for many Australian startups. In Q1, 9% of surveyed investors saw at least one of their portfolio companies shutter operations. With limited immediate startup funding, founders must deliver growth while significantly managing costs.

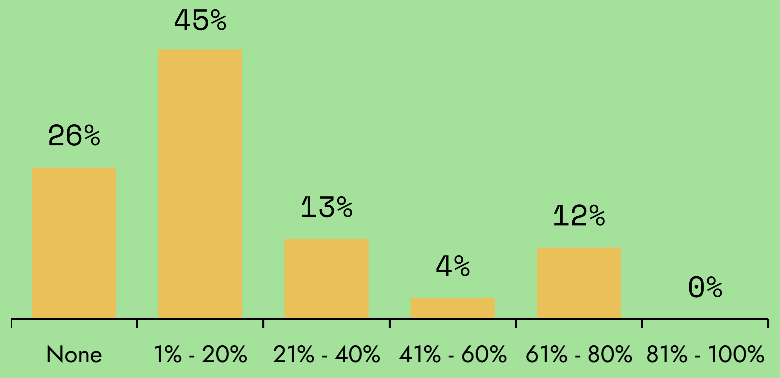
While we don't enjoy reporting negative news, we believe that providing reliable insights into the funding landscape is even more critical during a challenging environment.

INVESTOR INSIGHTS

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



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



– Cut Through Venture Investor Sentiment Survey March 2023

TL;DR – FIVE THINGS TO KNOW

It wasn't the strong start to 2023 that Australian startup funding ecosystem participants had hoped for, following what was a tough end to 2023.

01 Australian startup funding experienced its slowest start since 2019, as the announced $661M amounted to below 50% of Q1 2021 and 20% of Q1 2022. The figure slightly trailed 1Q 2020, and all deal sizes hit lows significantly beneath 2021 and 2022 quarterly levels.

02 Just 26% of investors reported the Q1 funding environment as favourable. Despite evaluating fewer deals in Q1, 79% anticipate completing the same or more deals this year than last. Over half of investors advised their portfolio to seek internal rounds over funding from new investors.

03 Median and average deal sizes dropped across the deal stage spectrum. The absence of "mega deals" meant that the average deal size dropped significantly at all stages. Investors also reported sizable falls in valuations at Pre-Seed + Seed, Series A, and Series B+.

04 Fintech reconfirmed its funding and deal count leadership, yet didn't rank amongst investors' most exciting sectors. They are most excited about AI, Enterprise Software, and Cyber. Crypto/Web3, Food/Beverage, and Consumer Products ranked lowest.

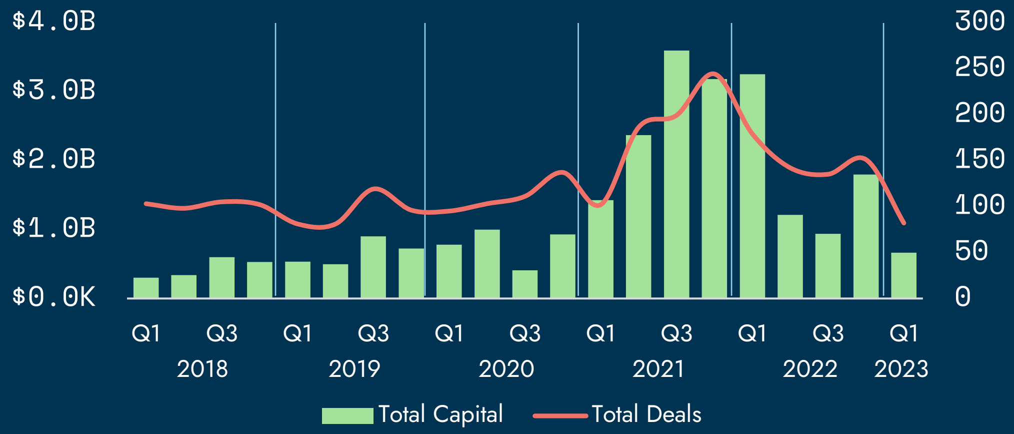
05 Female founders experienced a promising Q1 rebound, reaching a two-year peak in total funding share. Seed and Series B+ deal shares achieved highs, while Series A share marked a five-year low.

IN Q1 2023 AUSTRALIAN STARTUPS ANNOUNCED

$661M

CAPITAL RAISED ACROSS

82 DEALS



INVESTOR INSIGHT

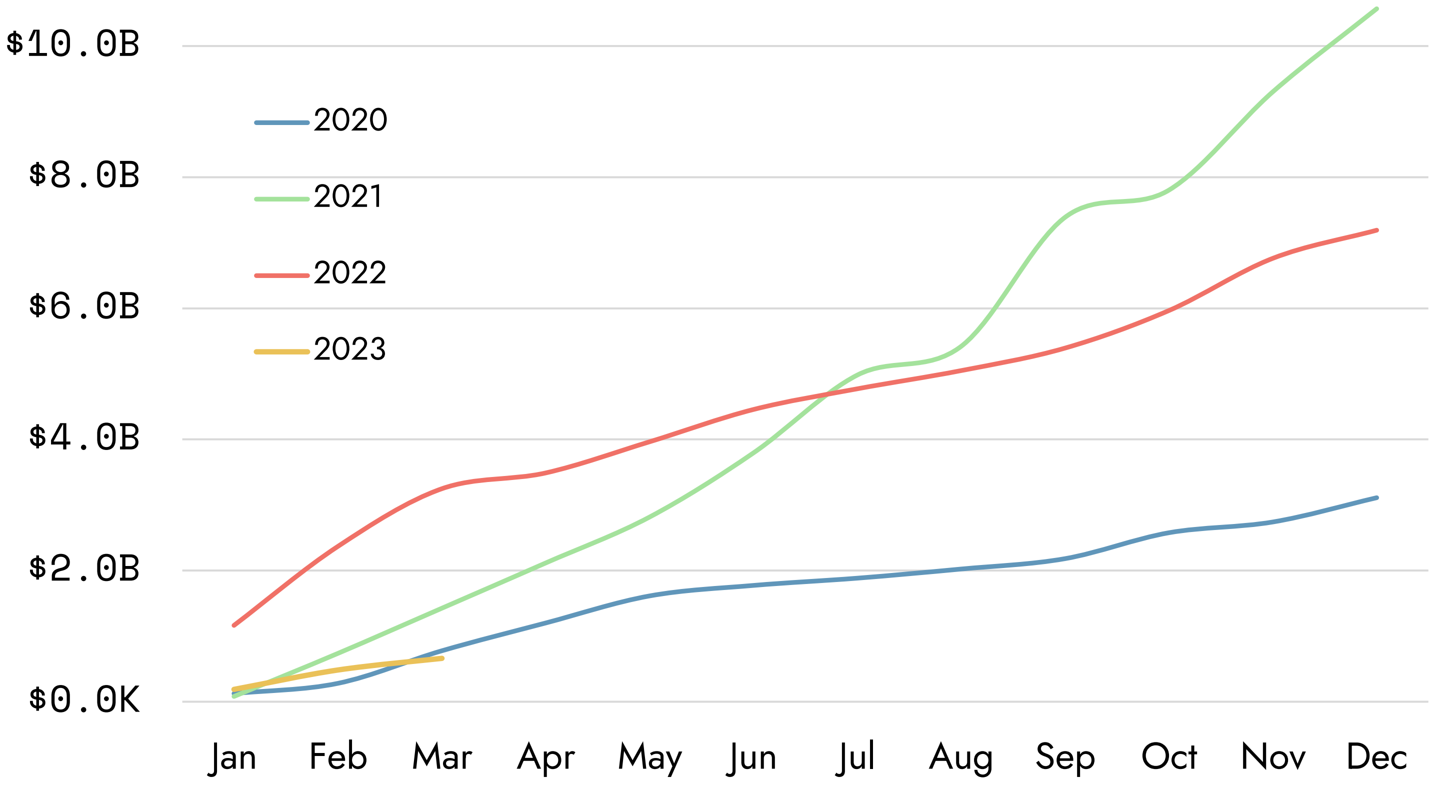
January 2023 marked the slowest period for VC deal activity in Australia that I've experienced in my years of investing in startups. Concerns over interest rates and economic growth stifled any momentum as the quarter progressed. The recent shock of Silicon Valley Bank's collapse further undermined confidence in the market.

For investors with funds to invest and the confidence to do so, the second half of 2023 will present the one of the best times to deploy capital that we've seen in many years.

– Cut Through Venture Investor Sentiment Survey March 2023

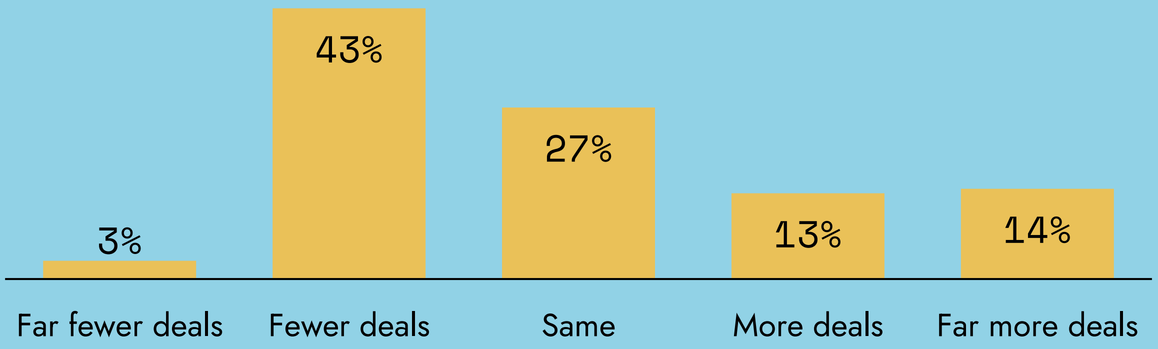
TOTAL CAPITAL RAISED

Australian startup funding began at its most sluggish pace since 2019, with the $661M announced funding totalling less than half of Q1 2021 and just a fifth of Q1 2022. It fell just short of the level reached in 1Q 2020.



INVESTOR INSIGHTS

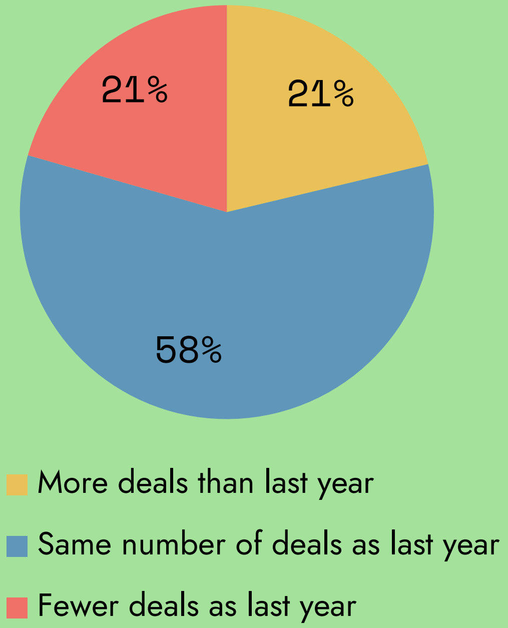
Compared to this time last quarter, how would you best describe the volume of new deals your team is assessing?



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

- Raise a bridge round from current investors **57%**
- Raise as normal **19%**
- Delay fundraising **24%**

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



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

65% responded greater than 0%

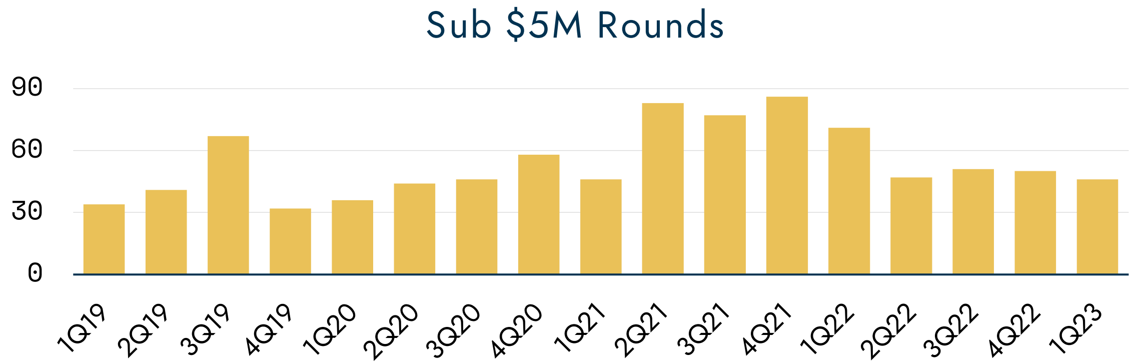
Rank your firm's priorities for next quarter.

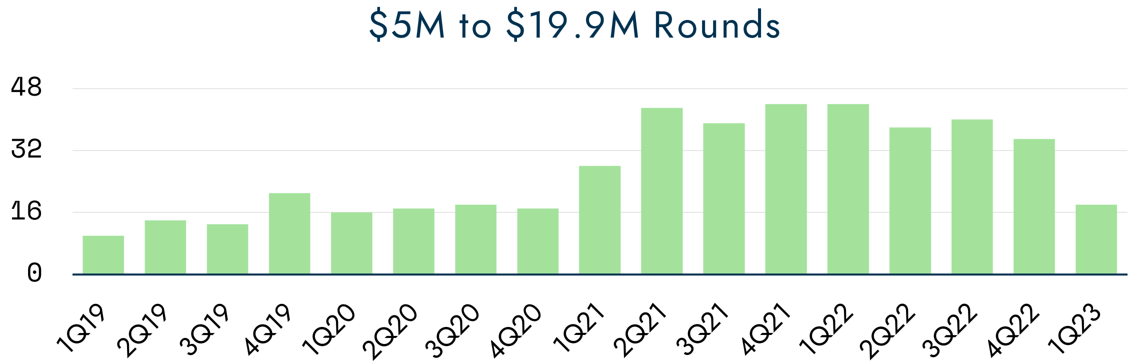
1. Invest in new startups
2. Ensure current portfolio is well capitalised
3. Fundraising from LPs
4. Marketing and business development
5. Internal firm initiatives

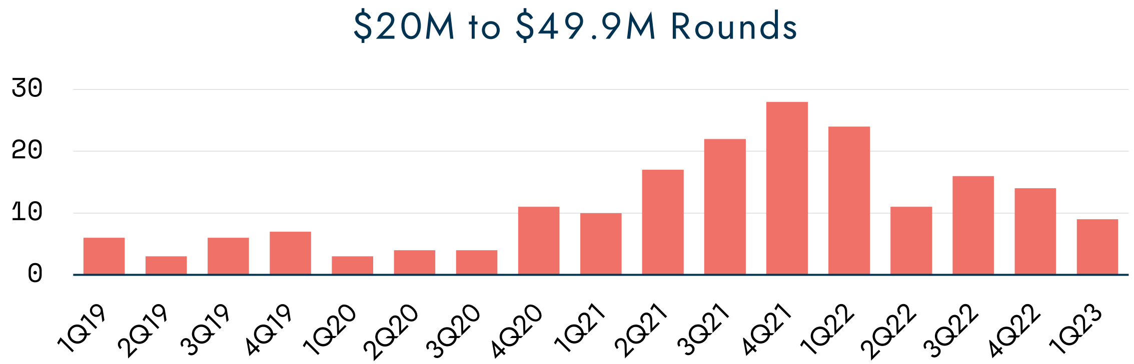
– Cut Through Venture Investor Sentiment Survey March 2023

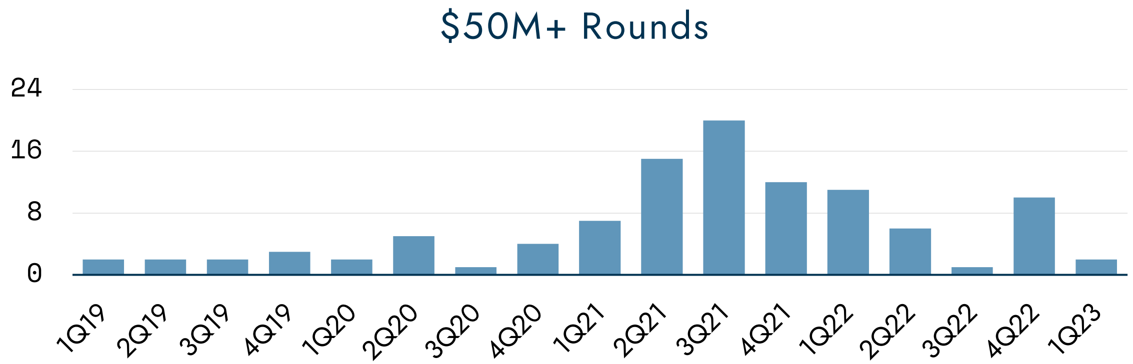
DEAL COUNTS AT ALL SIZES SLIDE

Announced deals up to $50M dropped to levels unseen since Q3 2020, while $50M+ deals slightly surpassed the two-year low set in 3Q22. The steepest decline occurred in deals between $5M and $20M, which fell by over 50% compared to the quarterly average from 2020 to 2021.



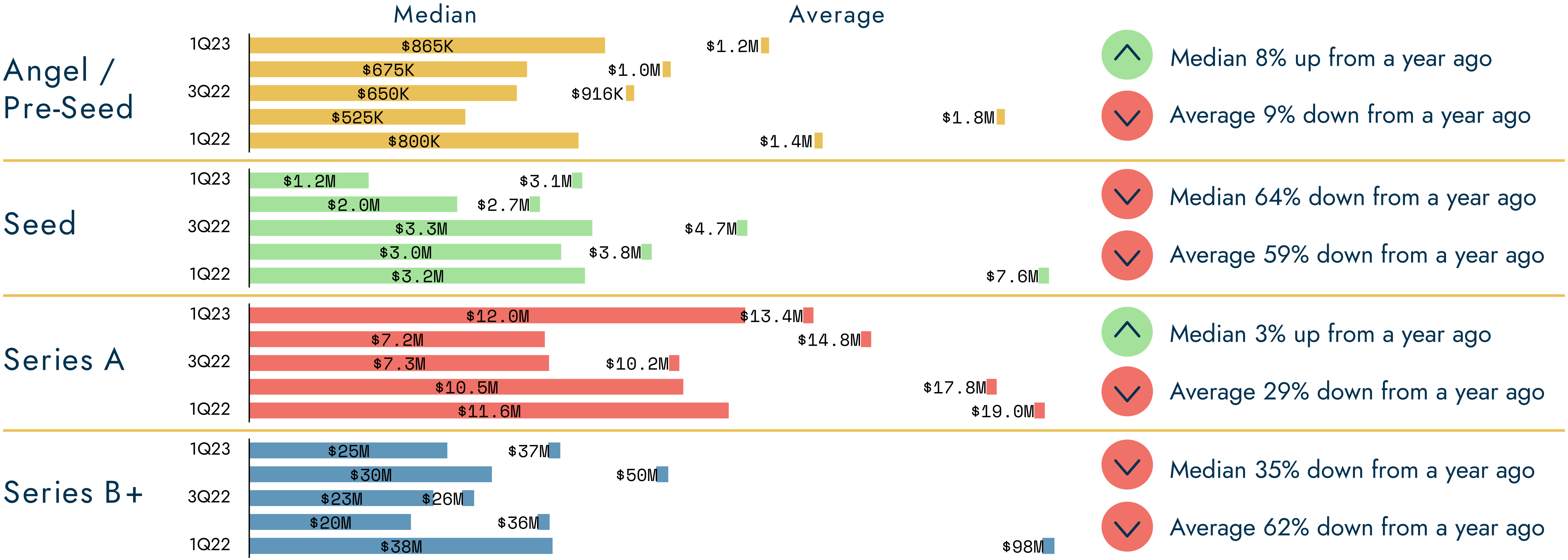






CHANGE IN DOLLARS RAISED BY ROUND

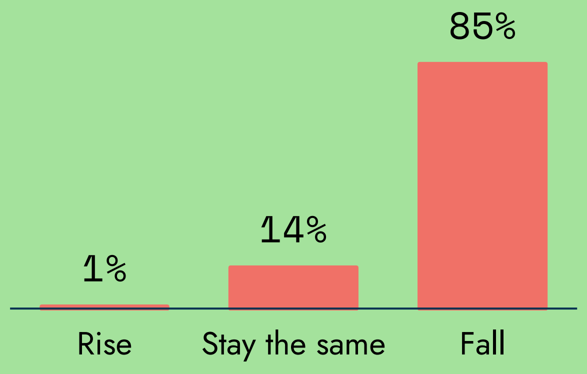
Average deal size, which is impacted by outliers, fell dramatically at the Seed through Series B+ stages and marginally at the Angel/Pre-Seed stage. The median deal size at the Angel/Pre-Seed and Series A bucked the broader trend, marginally increasing compared to Q1 2022.



INVESTOR INSIGHT

> *The capital markets landscape has changed dramatically over the past year, but the one thing that hasn't changed is good companies will raise — just not at valuations of the past 2 to 3 years.*
>
> *— Cut Through Venture Investor Sentiment Survey March 2023*

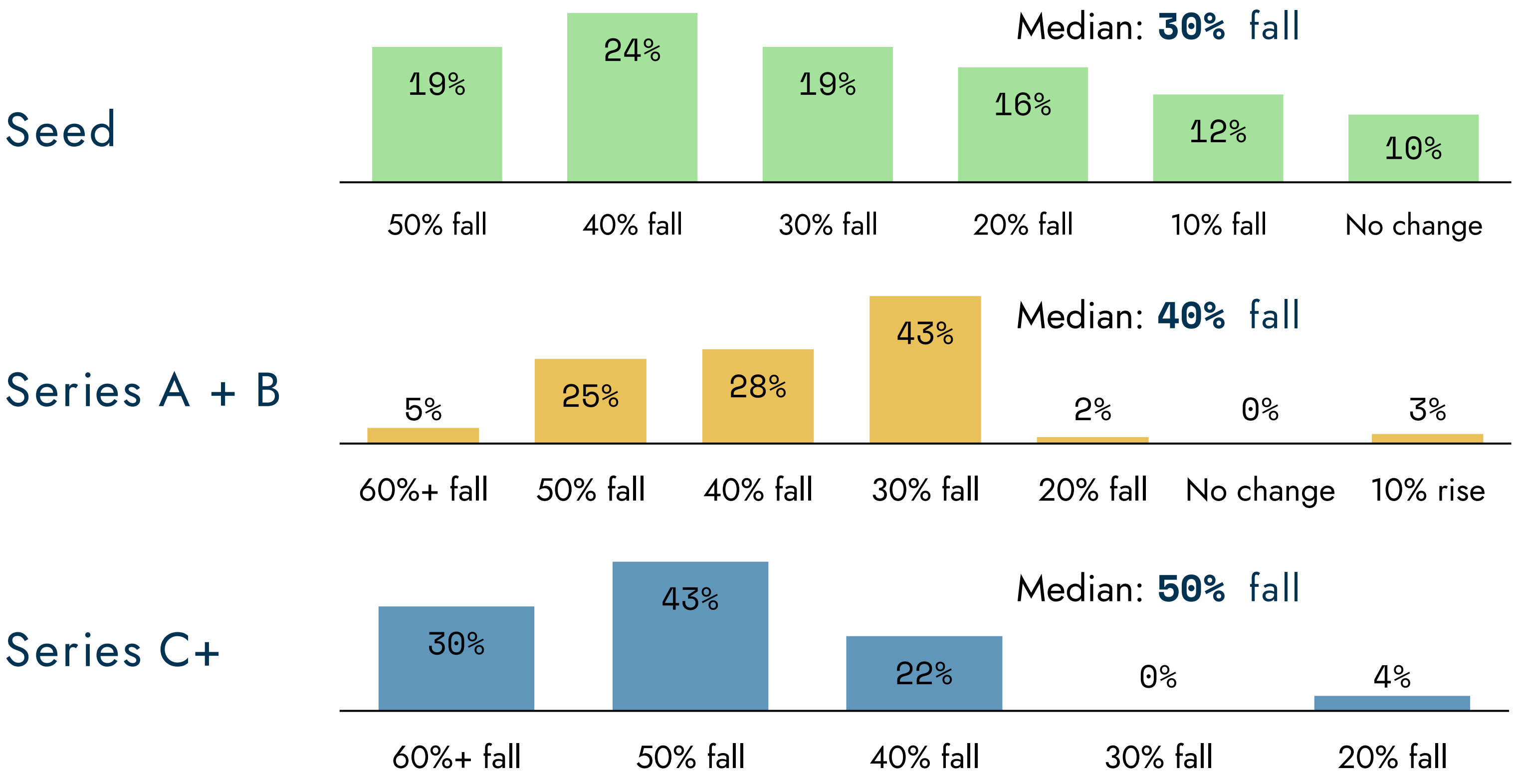
What do you believe will happen to valuations for the remainder of the year?



— Cut Through Venture Investor Sentiment Survey March 2023

VALUATIONS

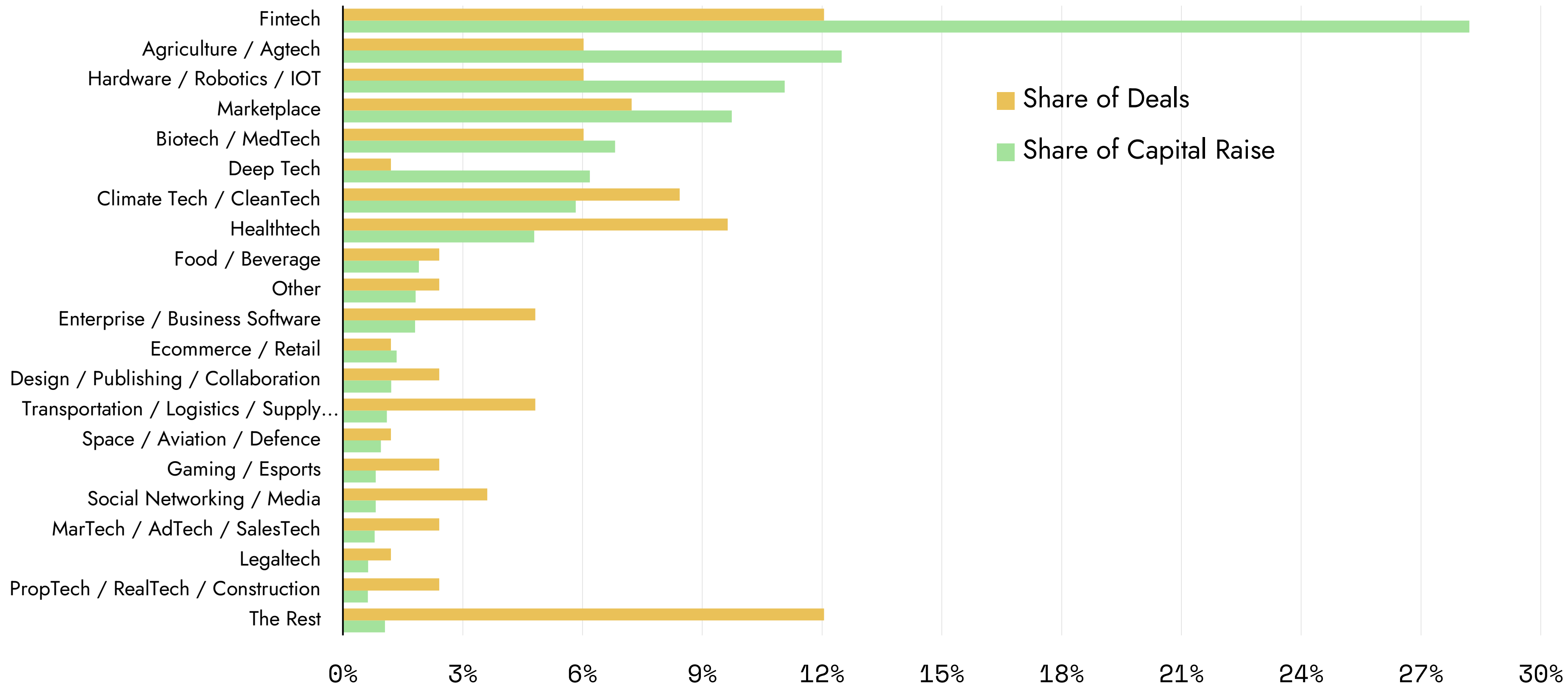
INVESTOR INSIGHT: For deals at the {>>>} stage, what is your best estimate of the valuation change from this time last year?



— Cut Through Venture Investor Sentiment Survey March 2023

SECTOR SHARE OF FUNDING & DEALS

Fintech re-established its dominance in funding and deal count, accounting for almost a third of total funding and one in ten deals. HealthTech showed strength in deal count, and Agriculture/AgTech sustained its recent funding popularity



INVESTOR INSIGHT

In the next few years, we expect investors to focus more on industries that use capital efficiency, solve actual real world problems, and help improve productivity. These sectors will likely grow and create lasting value, making them popular among investors seeking sustainable long-term results for their LPs.

– Cut Through Venture Investor Sentiment Survey March 2023

SECTOR SHIFTS IN POPULARITY

The global AI enthusiasm, ignited by ChatGPT's late 2022 release, captivated Australian investors, making AI/Big Data the most appealing sector amongst investors. In contrast, the Crypto/Web3 sector, impacted by late 2023 controversies, ranked last among investor preferences.

INVESTOR INSIGHT: Which five sectors are you most excited about for the remainder of the year?

1. AI / Big Data
2. Enterprise / Biz Software
3. Cyber / Privacy
4. Deep Tech
5. Design / Publishing / Collab

INVESTOR INSIGHT: Which five sectors are you least excited about for the remainder of the year?

1. Crypto / Web3
2. Food / Beverage
3. Consumer Products (non Food / Bev)
4. EComm / Retail
5. Social Networking / Media

– Cut Through Venture Investor Sentiment Survey March 2023

Most Highly Funded Sectors

	1Q2022	2Q2022	3Q2022	4Q2022	1Q2023
1	Ent / Biz Soft	EdTech / Training	Fintech	Fintech	Fintech
2	Fintech	Ecommerce / Retail	Healthtech	Hard/Robot/IOT	Agri / Agtech
3	Block / Crypto / Web3	Ent / Biz Soft	Food / Bev	Bio / MedTech	Hard/Robot/IOT
4	PropTech / Construction	Trans / Logist / Supply	Bio / MedTech	Climate/CleanTech	Marketplace
5	Social / Media	Fintech	Climate/CleanTech	Food / Bev	Bio / MedTech

Most Deals by Sector

	1Q2022	2Q2022	3Q2022	4Q2022	1Q2023
1	Fintech	Fintech	Fintech	Ent / Biz Soft	Fintech
2	Block / Crypto / Web3	Climate/CleanTech	Healthtech	Healthtech	Healthtech
3	Ent / Biz Soft	Hard/Robot/IOT	Climate/CleanTech	Climate/CleanTech	Climate/CleanTech
4	Climate/CleanTech	Ent / Biz Soft	Marketplace	Bio / MedTech	Marketplace
5	Hard/Robot/IOT	Healthtech	Bio / MedTech	Fintech	Bio / MedTech

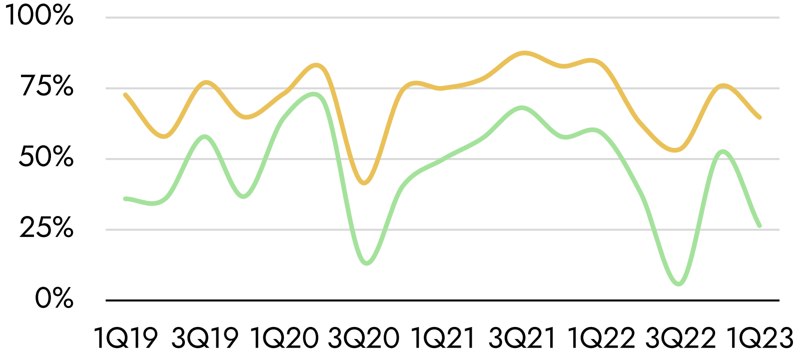
LARGE DEALS FREEZE

Following a resurgence in 4Q 2022, large deals came to a halt in Q1. Overseas investors, who participated in many of the largest rounds in 2021 and 2022, were noticeably less active in the Australian market in 1Q. Many later-stage startups shifted to cost-saving mode, resulting in fewer large deals in the market. The deals that did emerge are taking longer to secure funding.

Average $100M+ deals per quarter in 2022: **3**

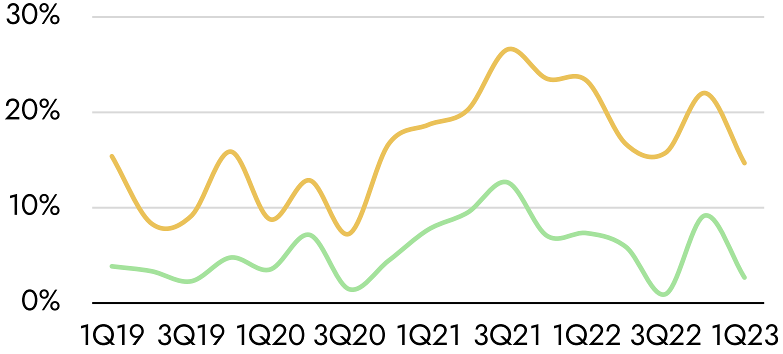
$100+ deals in 1Q 2023: **1**

% of Total Capital from Large Deals



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

% of Deals that were Large Deals



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

INVESTOR INSIGHT

The current environment is daunting for startups seeking substantial funding rounds. Many have been forced to cut back on expenses, aiming to extend their runway in these uncertain times. While this strategy might buy some time, it is not a sustainable solution for the long-term.

As we move into the second half of the year, we anticipate a surge in late-stage startups seeking significant capital injections. Some will be successful, but, unfortunately, some will inevitably fail.

– Cut Through Venture Investor Sentiment Survey March 2023

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30 LARGEST DEALS OF Q1 2023

The thirty largest deals, totalling $609M, represented 92% of all funds raised in Q1. Only two startups raised over $50M, and just 11 raised more than $20M – making Q1 one of the slowest quarters for mega deals in the past three years.

Startup	Sector	Round	Stage
Loam Bio	Agri / Agtech	$105M	Series B
Till Payments	Fintech	$70M	Series D
Q-CTRL	Deep Tech	$39M	Series B
Hnry	Fintech	$35M	Series B
DataMesh	Fintech	$30M	Series A
Unyoked	Marketplace	$28M	Series A
Shift	Fintech	$27M	Series C
SpeeDx	Bio / MedTech	$26M	Unclass
Quantum Brilliance	Hard/Rob/IOT	$26M	Series A
OpenSolar	Climate/Clean	$22M	Series B

Startup	Sector	Round	Stage
GigaComm	Hard/Rob/IOT	$20M	Unclass
Mindset Health	Healthtech	$18M	Series A
Rumin8	Climate/Clean	$17M	Seed
myInterview	Ent / Biz Soft	$16M	Series A
Milo	Hard/Rob/IOT	$12M	Series A
FoodByUs	Marketplace	$12M	Series B
Fable Food	Food / Bev	$12M	Series A
SwarmFarm Robotics	Hard/Rob/IOT	$12M	Series A
SendFX	Fintech	$12M	Series B
Ferronova	Bio / MedTech	$11M	Series B

Startup	Sector	Round	Stage
Chronicle	Design/Collab	$8M	Seed
Bodd	Healthtech	$7M	Unclass
FLAIM Systems	EdTech	$7M	Series A
Fingerprint for Success	EdTech	$7M	Seed
Quasar Satellite	Space/Aviation	$6M	Series A
Lumiant	Hard/Rob/IOT	$5M	Seed
CarExpert	Social / Media	$5M	Seed
Multinex	Mar/SalesTech	$5M	Seed
GeoMoby	Trans/Log/Sup	$4M	Unclass
Nexl	LegalTech	$4M	Series A

INVESTOR INSIGHT

In Q4 2021 and Q1 2023, we observed numerous startups adjust their initial fundraising goals midway through the process.

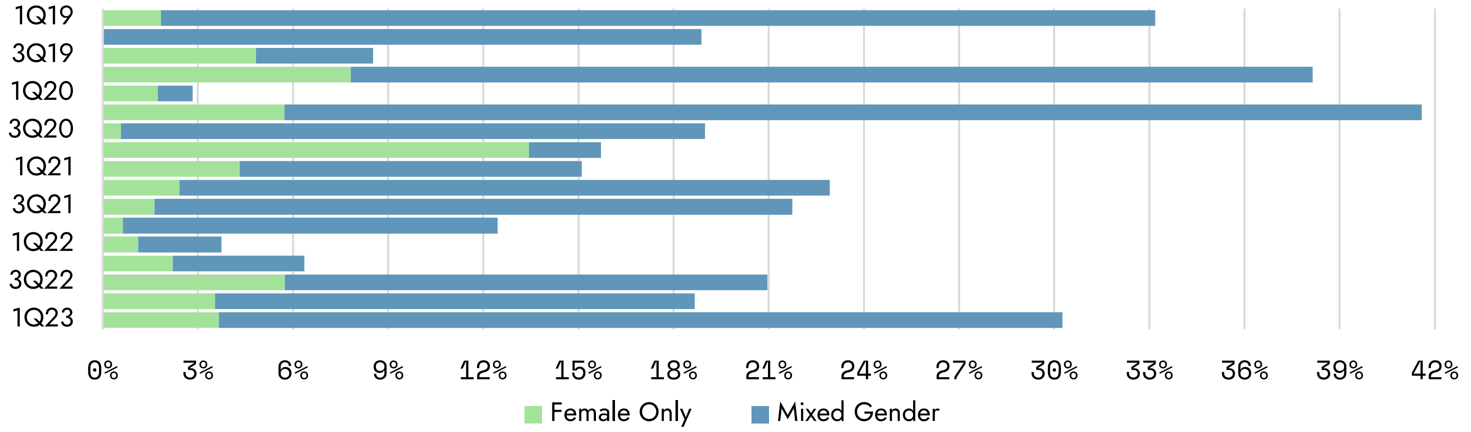
Our fund led on 2 investment rounds exceeding $15 million, where we encountered challenges in securing additional investors willing to contribute substantial amounts to the round.

– Cut Through Venture Investor Sentiment Survey March 2023

FUNDING TO FEMALE FOUNDERS

Female-founded teams' funding share hit its highest point since 2Q20, primarily driven by the successful fundraising of microbial technology startup Loam Bio, responsible for over half of the funds raised by female-led firms. The following two top-raising female-led startups, SMB accounting solution Hnry and methane-reducing livestock supplement producer Rumin8, collectively made up 25% of total funds raised. Eight all-female founding teams contributed to the $26M raised by all-female founding teams.

Percentage share of total capital raised by female founders



1Q 2023 largest rounds by female founders

loam
$105M
Series B

Hnry
$35M
Series B

Rumin8
$17M
Seed

Swarm Farm Robotic Agriculture
$12M
Series A

Cauldron
$10.5M
Seed

Fingerprint for Success
$7M
Seed

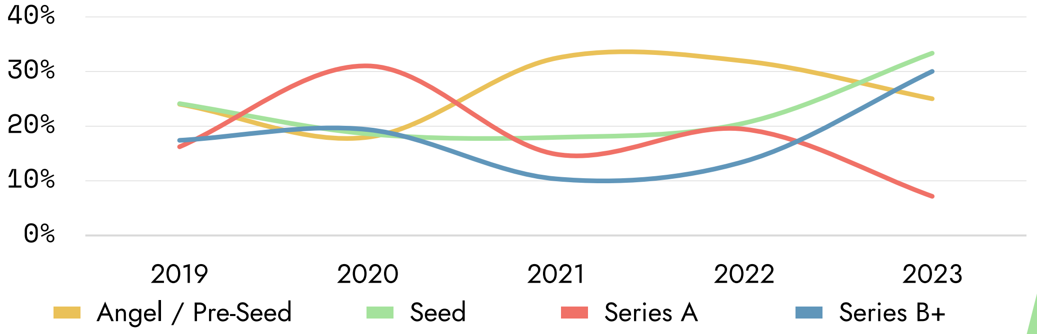
Percentage share of total capital raised by female founders

2020	2021	2022	2023 YTD
25% at least one female	21% at least one female	10% at least one female	31% at least one female
6% all female	2% all female	3% all female	4% all female

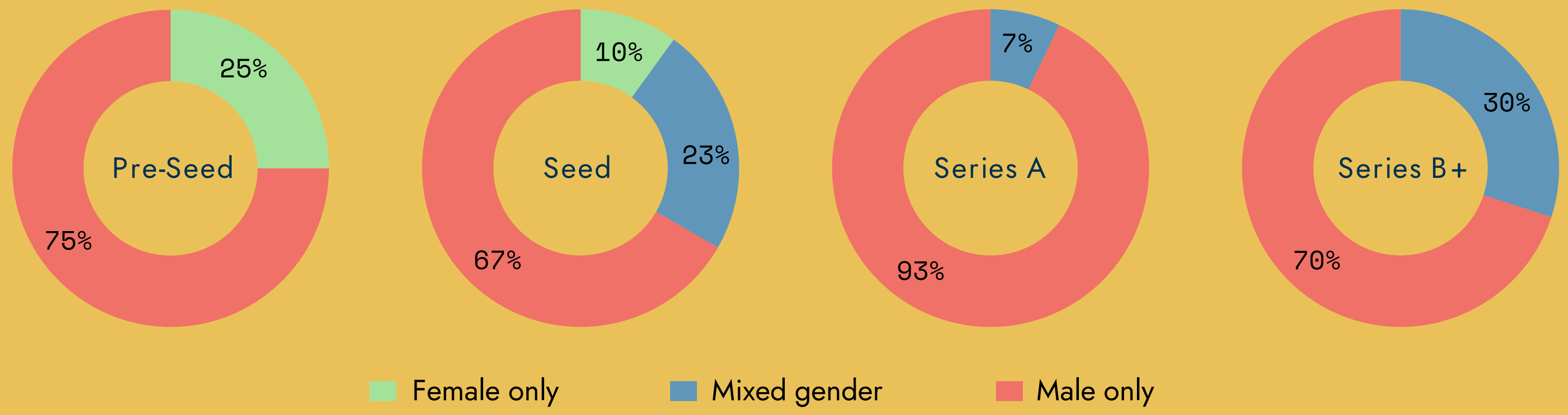
FEMALE FOUNDER DEAL PARTICIPATION

Female founders' late-stage deal participation reached levels last observed in early 2021. Seed stage participation surpassed the 2019 peak, while Series A participation fell to its lowest point in five years. Median deal size for female-founded startups was 48% lower than that for all-male founding teams.

Share of deals by teams with at least one women founder



1Q 2023 share of deals by teams with at least one women founder



Median deal size by gender

	All male founders	At least one female
1Q 2023	$3.8M	$2.0M
2022	$3.8M	$2.3M
2021	$5.4M	$3.0M
2020	$3.0M	$1.3M

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 press releases, social media, and investor memos. Data is also provided directly to Cut Through Venture by Australian startup ecosystem participants, including investors and founders. 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. 141 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 was not possible to validate the authenticity of the responses. 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 particular needs of any person and is not intended as an offer or solicitation for the purchase or sale of any financial instrument.

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