NOVUM
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Monthly Investment Update

An Update on Key Themes in VC and Crypto Markets

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Venture Capital | Trends Shaping Q1 2024

Looking across the market today, the uncertainties that led to a sudden shift in market prices are still present—albeit at a lower level than a year ago. Inflation in the US remains persistent, with the March Consumer Price Index figure at 3.4%, slightly higher than the previous month and above the Federal Reserve's (Fed) target of 2%. The uncertainty around rate cuts will continue to impact market prices and VC financing rounds. Despite these challenges, public market multiples have expanded slightly, providing some relief for the venture capital (VC) industry.

Artificial intelligence (AI) continues to be the leading investment vertical in the US venture market, with 22% of deal count and 34% of deal value in Q1 going to AI companies. Venture deals in Q1 2024 remain under pressure, with the total number of deals remaining significantly lower than the numbers seen in 2021-2022. The venture capital landscape in Europe and the US exhibited distinct trends across stages, with companies adapting and responding strategically to market conditions.

- **Seed stage:** In Europe and the US, valuations and deal sizes remained robust during the quarter. Europe, in particular, witnessed a notable increase in seed valuations and deal sizes from 2023 onwards. This trend can be attributed to the higher quality of companies receiving funding, founders' efforts to extend their runway, and increased competition within seed rounds.
- **Early-stage:** Europe experienced a significant increase in early-stage deal sizes and valuations. In the US, while valuations marginally strengthened, median deal sizes continued their downward trend.
- **Late-stage:** In this space the results were pretty barbell. One side had more down rounds than ever but also a great number of strong rounds as investors are highly selective on the sector side and ready to pay a strong premium for repeat founders. Europe's late-stage deal values experienced a slight increase in Q1 2024, despite a decline in valuations. In the US, late-stage valuations and deal sizes increased, but the step-up in valuations continued to decline.
- **Venture growth:** While Europe has shown some signs of rebounding in terms of deal size and valuation, the market in the US remains weak compared to 2021 levels due to pricing mismatch and weak exit markets.
- **Down/Flat rounds:** In the US, the proportion of down rounds has consistently increased, reaching a decade-high of 27% in Q1 2024, imposing highly dilutive terms on stockholders and early-stage investors. In Europe, the proportion of down rounds increased slightly to 21.7% in Q1 2024, but there are signs of slowing down, with up rounds above the historical average for the first time since 2021. The market remains strongly investor-friendly and harsh for founders looking to fundraise.

Trends by Stage

Seed: US Deal Sizes Continue Their Growth Trajectory

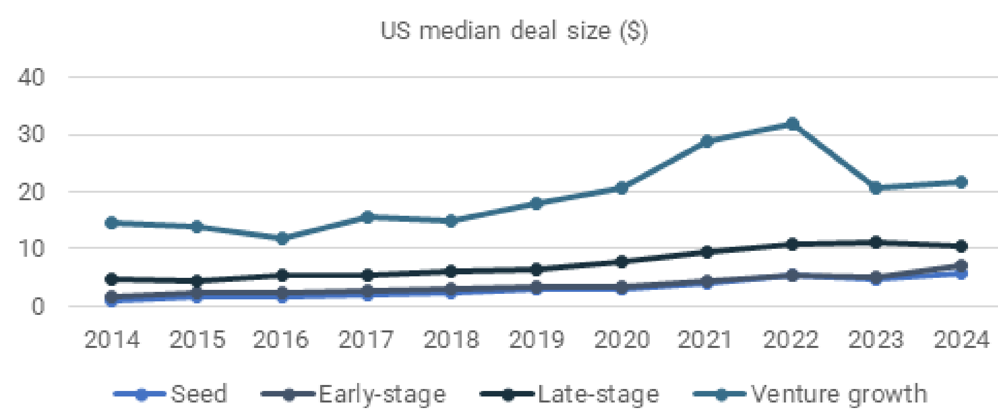
In Europe, there was a notable uptick in seed valuations and deal dimensions from 2023, a trend that was consistent across the distribution. The most significant growth was observed in the median seed deal values, which saw a 33% surge in the quarter, culminating in a figure of EUR2 million. **Median valuations also showed promising signs of rebounding from the previous year**, with an 18% rise in Q1 2024, bringing the total to EUR5.7 million. This resilience echoes the patterns seen in the pre-seed phase, where the market dynamics are akin to the early stages—characterized by longer investment timeframes and fewer profitability benchmarks for company evaluation.

In the US, the median valuations and step-up in valuation have maintained strength at USD12 million and 1.5x, respectively, despite the corrective movements in the later stages (Figure 1). Deal sizes have continued their growth trajectory, reaching USD3.1 million, which marks a 5% quarter-on-quarter increase and represents the highest median deal size recorded for any quarter.

"Deal sizes have continued their growth trajectory, reaching USD3.1 million, which marks a 5% quarter-on-quarter increase..."

This trend is driven by several factors. Firstly, **the quality of companies receiving investments today is higher compared to a few years ago**. Investors have become more selective, demanding robust KPIs related to financials and development. Secondly, there is a strategic push to provide ample capital to help companies withstand economic slowdowns. While later-stage companies can tweak their spending to improve capital efficiency, younger companies have limited options other than to pursue larger funding rounds. Thirdly, competition for seed rounds has intensified, primarily because they are the focus of smaller funds, typically those with commitments under USD50 million. These funds predominantly target early-stage companies, as their size restricts them from investing in later-stage ventures. **Moreover, across all venture stages, the time between funding rounds has increased significantly over the past year.** For example, companies that closed a round in the first quarter at the pre-seed or seed stage had a median age of 3.1 years, the highest figure ever for this data point.

Figure 1: US Seed Deal Sizes Maintain Strength



Source: Pitchbook, as of March 31, 2024.

Early-stage (A – B): Robust Valuations, But Growth Pace Slows

In Q1 2024, Europe saw a significant increase in early-stage deal sizes, with a 48% rise to EUR2.0 million compared to EUR1.3 million in 2023. Median valuations also surged, up 36% from EUR7.0 million in 2023. Early-stage deals continue to dominate European VC activity, with notable deals including Mistral AI, Moove (fintech), and Subgen AI, which are among the highest-valued companies in this stage.

"In Q1 2024, Europe saw a significant increase in early-stage deal sizes, with a 48% rise to EUR2.0 million..."

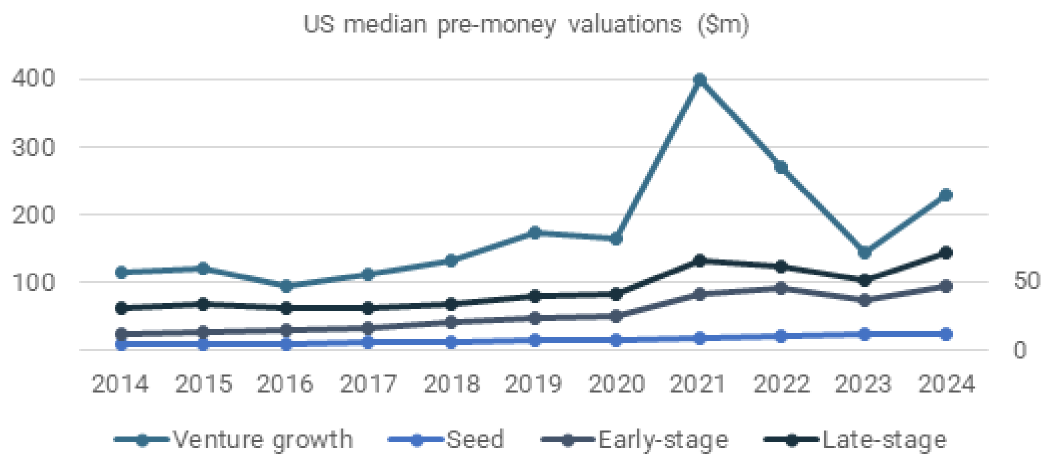
In the US, median valuations increased by 16% quarter-on-quarter to reach USD46.5 million, although they did not surpass the high medians experienced during the peak of exuberance in

2021. In terms of deal size, early-stage deals saw a slight decrease of 4% in the first quarter, amounting to USD4.8 million. **Multiples remain compressed, which means that revenues have not been severely hurt by economic uncertainty.** Analyzing these high top-line valuations from the perspective of annual growth since the last funding round casts the valuation growth in a different light.

"The annualized valuation growth is still significantly lower than the peak figures previously calculated."

The annualized valuation growth is still significantly lower than the peak figures previously calculated. For instance, companies that raised an early-stage round in the first quarter added approximately USD16.8 million to their valuation, marking an increase of just 36.2%—the lowest figure for early-stage rounds in the past decade, with the exception of 2023. The median early-stage step-up multiple in the first quarter was only 1.7x, a rate comparable to market growth seen back in 2016. **This indicates that while the valuation numbers are robust, the growth pace has moderated considerably.**

Figure 2: US Early-stage Valuations Rise But Remain Below Peak



Source: Pitchbook, as of March 31, 2024.

Late-stage (C – D): European Valuations Decline, But Deal Values Rise

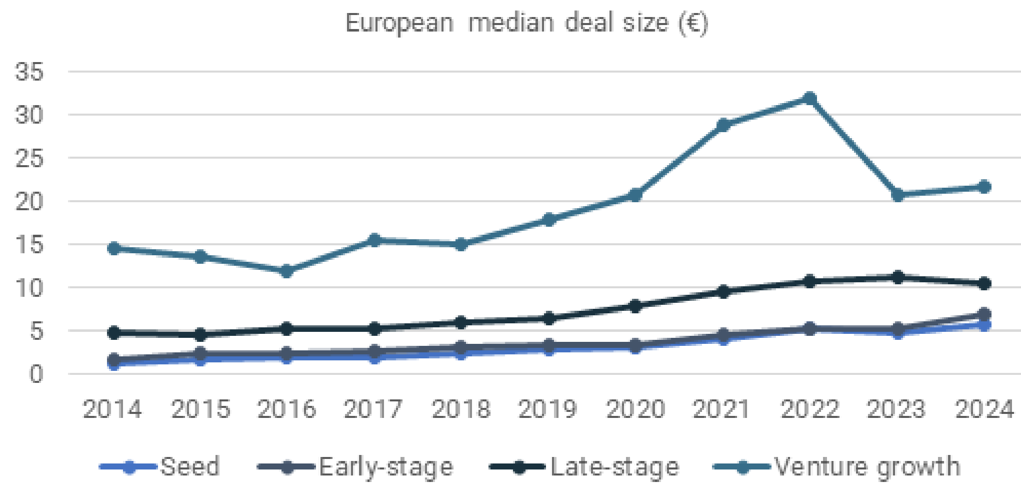
In Q1 2024, late-stage valuations in Europe experienced a decline, but deal values continued to rise. The median deal size increased by 34.1% to EUR4.0 million, compared to 2023. However, median valuations showed less resilience, with a 5.4% decrease to EUR10.6 million in Q1. **Despite this, the decline is not a significant concern**, given the small decrease and the fact that other areas of valuation dispersion in this stage all increased in Q1 2024 compared to 2023.

"The valuation increase in late-stage deals also showed consistency across both the top and bottom quartiles, indicating consistency throughout the distribution."

In the US, median valuations saw a significant quarter-on-quarter increase of 36%, reaching USD70.1 million, although this figure is still 12% lower compared to the peak of 2021. The valuation increase in late-stage deals also showed consistency across both the top and bottom quartiles, indicating consistency throughout the distribution. However, looking at the median step-up in valuation it continues to show a downward trend, reaching 1.31x, which is the second-lowest level observed over the last decade.

Valuation step-ups are always lower because of the high prices the market has previously paid and the challenges in sustaining growth rates with the limited capital available to support expansion. **While the median for early-stage deals increased by 12% in the first quarter to USD6.1 million, it still remains substantially lower**—45% below—than the USD11 million peak recorded in 2021. Graduation time continues to increase at 1.9 years demonstrating the harsh market for late stage businesses.

Figure 3: European Early-stage Deal Sizes at 2022 Levels



Source: Pitchbook, as of March 31, 2024.

"The median time between rounds has reached a five-year high of 1.54 years, as venture growth startups try to delay the need for external capital."

Venture Growth (Pre-IPO): Several Challenges Remain

The venture growth stage remains the most difficult for dealmaking, due to mismatches in founder and investor valuation expectations and weak exit markets. Another significant challenge facing many privately held, highly valued companies is the discrepancy between current market pricing and the lofty valuation multiples at which they raised funds during their last private investment round. Also, we saw a pullback from tourist investors in VC, which entered this market area in the peak of 2021 but exited investments due to higher volatility.

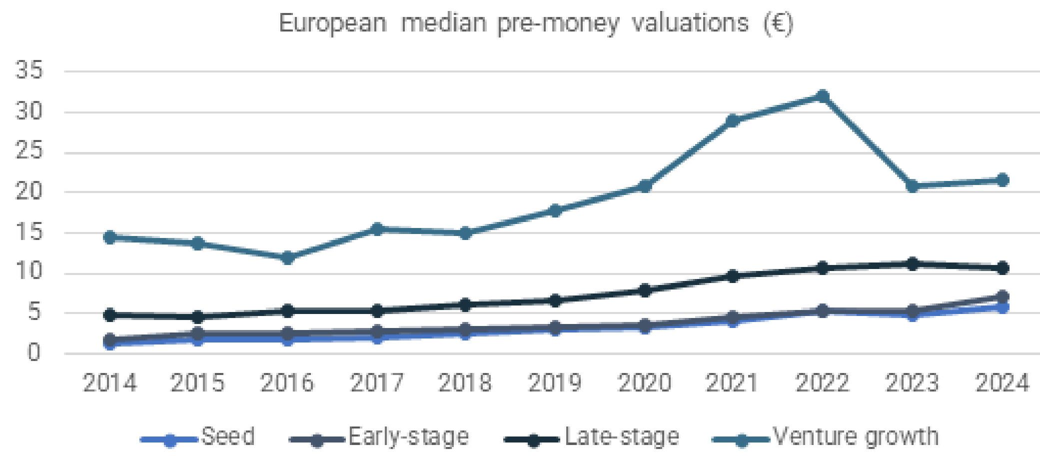
Heading into 2024, there was a generally optimistic outlook for an uptick in IPO activity. However, this sentiment has recently changed as interest rates are now anticipated to stay higher for an extended period, with little to no reductions expected this year. **Many companies are continuing to increase their cash runways through headcount and variable cost reductions** while evaluating acquisitions at exit. Consequently, the median time between rounds has reached a five-year high of 1.54 years, as venture growth startups try to delay the need for external capital.

" While there has been a quarterly improvement in median pre-money valuations, the step-up in valuation for venture growth companies remains compressed..."

In Europe, venture growth companies faced a challenging environment in 2023, but there has been some improvement this year. The median deal values in this stage have been increasing significantly by 56% to EUR9.3 million in Q1 2024 reaching an all-time high. **In contrast to 2023 trends, valuations also showed signs of improvement,** increasing by 5% to EUR21.7 million but remain 32% lower versus 2022 record levels. This was likely aided by the rally in public equity valuations since January, providing a more favorable comparable. Additionally, high-profile venture growth companies such as Klarna and Monzo have achieved higher implied valuations recently.

In US, the venture growth stage remain the most compressed in respect of the 2021 record high, with the Q1 2024 median pre-money valuation of USD220.0 million representing a 63% decline from the Q4 2021 record high. While there has been a quarterly improvement in median pre-money valuations (26%), the step-up in valuation for venture growth companies remains compressed at 1.21x compared to the peak of 1.96x in 2021. This stage heavily relies on the participation of non-traditional investors to support larger financing rounds and to signal the strength of a startup to other investors. **The withdrawal of non-traditional investors has driven the median deal size down by 63% quarter-on-quarter** to USD5.7 million, a seven-year low, and 85% lower than its 2021 record high.

Figure 4: European Venture Growth Valuations Show Improvements



Source: Pitchbook, as of March 31, 2024.

"In the US, since the first quarter of 2022, the proportion of flat and down rounds has consistently increased quarter-over-quarter..."

Deal Terms

The landscape for companies seeking new investment has become increasingly challenging due to a combination of business fundamentals, financial metrics, and external market forces. Even businesses that continue to grow but take longer to reach milestones struggle to attract new investors. **This difficulty is reflected in the rising prevalence of extension rounds and bridge financing, and in the growing occurrence of flat and down rounds.**

In the US, since the first quarter of 2022, the proportion of flat and down rounds has consistently increased quarter-over-quarter, reaching 27% in Q1 2024—the highest level in a decade. These down rounds are particularly challenging. Not only do they provoke emotional responses from founders, but they also impose highly dilutive terms on both common stockholders and early-stage investors. There has been an increase in pay-to-play rounds, where existing investors—especially angel investors and small early-stage-focused funds depleted of capital reserves—face significant dilution unless they provide additional capital. Founders also struggle with the stringent terms of these deals, as they absorb some of the dilution, potentially leading to misaligned incentives between management and investors.

"Investors are now also using additional levers to guarantee and protect their returns such as participating in liquidation preferences and cumulative dividends."

In Europe, the proportion of down rounds increased slightly in Q1 2024 to 21.7%, compared to 20.8% in 2023. However, there are signs that this trend may be slowing down. The proportion of up rounds also saw a slight increase to 76.3%, which is above the historical average for the first time since the peak of 2021. **If the interest rate environment remains favorable in the second half of the year, the proportion of down rounds may continue to decrease,** with flat and up rounds taking a larger share of deals.

Investors are now also using additional levers to guarantee and protect their returns such as participating in liquidation preferences and cumulative dividends. Although still less common, the proportion of VC deals featuring participating liquidation preferences has slightly increased year-over-year, accounting for 9.0% of all VC rounds in the first quarter of 2024. Similarly, deals incorporating cumulative dividends—which ensure the full payout of all unpaid accrued dividends to preferred shareholders—have also been rising, comprising 23.4% of all deals with dividends in the same period.

“Although still less common, the proportion of VC deals featuring participating liquidation preferences has slightly increased year-over-year...”

Figure 5: Deal Terms

Venture Stage	Percentile	Pre-money Valuation	Cash Raised	Dilution
	25th Pct	$8.0M	$2.6M	15.8%
Seed	50th Pct	$12.8M	$4.0M	20.9%
	75th Pct	$22.5M	$6.0M	25.9%
	25th Pct	$25.4M	$7.5M	17.0%
Series A	50th Pct	$41.5M	$10.6M	20.4%
	75th Pct	$72.7M	$18.0M	23.1%
	25th Pct	$54.5M	$16.7M	13.9%
Series B	50th Pct	$118.4M	$29.6M	16.2%
	75th Pct	$211.8M	$40.8M	18.9%
	25th Pct	$114.1M	$18.2M	10.3%
Series C	50th Pct	$195.7M	$40.2M	16.6%
	75th Pct	$355.0M	$92.8M	23.5%

Source: Carta, as of March 31, 2024.

Cryptocurrencies | Why is Bitcoin Becoming an Asset Class for Institutional Investors?

Since its inception in 2008, the market for virtual currencies has seen exponential growth, both in terms of the number of new currencies and the expansion of their consumer base and transaction frequency. Bitcoin, once a niche digital currency, has emerged as a mainstream asset class, increasingly attracting institutional investors. In this article, we will explore the factors driving the **institutionalization of Bitcoin and Ethereum**, the two leading Layer 1 (L1) blockchains, and examine their roles in the evolving landscape of digital assets.

Who Bought the Spot Bitcoin ETF?

The recent 13F filings for the first quarter of 2024 with the US Securities and Exchange Commission reveal that roughly 1,000 filers held shares in Bitcoin ETFs, highlighting institutional ownership of around 13% of spot Bitcoin ETFs. This marks a significant shift from Bitcoin’s early days, dominated by retail traders. Among the notable institutional buyers of Bitcoin ETFs are hedge funds, which have recognized the potential of Bitcoin both as a direct investment and as a part of sophisticated trading strategies.

“Among the notable institutional buyers of Bitcoin ETFs are hedge funds, which have recognized the potential of Bitcoin...”

Figure 6: Types of Investors in Bitcoin

Institutional Type	Sum of Market Value in USD
Investment Advisors	$6'272.8 million
Hedge Fund Manager	$4'803.5 million
Brokerage	$1'769.0 million
Corporate/Trust/FO	$1'624.0 million
Pension Fund	$163.2 million
Private Equity	$80.9 million
Bank	$74.8 million
Venture Capital	$15.1 million
Insurance Company	$3.6 million
Government	$7.3 thousand
Total from 13F in Spot ETFs	**14,806,947,569.27**
Total AUM in Spot Bitcoin ETFs	**62,067,223,060.00**

Source: Bloomberg, as of April 30, 2023.

The filings, while providing a snapshot of ownership at the end of Q1, do not fully reveal the intentions behind these holdings. Some investors may be Bitcoin bulls, while others might be using Bitcoin ETFs to profit from the cryptocurrency's volatility or to hedge short positions in derivatives. Additionally, basis trades exploiting price differences between spot and futures markets are becoming common. This new phase has been described as a **new digital gold rush** from institutional investors eager to tap into this emeredge Fund Investors in Bitcoinging asset class**.**

“This new phase has been described as a new digital gold rush from institutional investors eager to tap into this emerging asset class.”

Figure 7: Hedge Fund Investors in Bitcoin

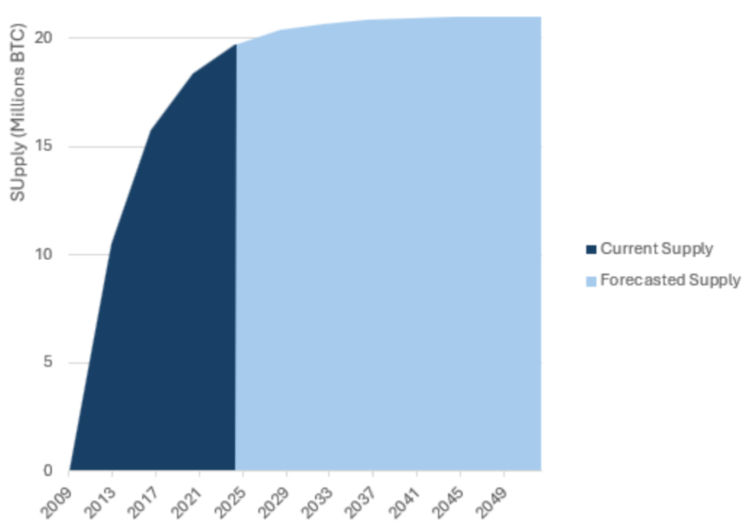
Hedge Fund Manager	Bitcoin Hold in ETF	AUM
Millennium Management LLC/NY	$1'942.6 million	$64 billion
Citadel Advisors LLC	$'58.9 million	$58 billion
Point72 Asset Management LP	$'77.6 million	$34 billion
Renaissance Technologies LLC	$'11.9 million	$105 billion
DE Shaw & Co LP	$9.0 million	$55 billion
Two Sigma Investments LP	$2.0 million	$60 billion
Elliott Investment Management LP	$12.0 million	$55 billion
Marshall Wace	$28.6 million	$55 billion
Schonfeld Strategic Advisors LLC	$479.8 million	$10 billion

Source: Bloomberg, as of April 30, 2024.

Virtuality, Scarcity, and Adoption

Institutional investors are increasingly attracted to Bitcoin due to its unique nature as a new asset class, often referred to as “synthetic commodity money.” This term captures Bitcoin's key characteristics: virtuality, scarcity, and adoption. Bitcoin blends aspects of commodity money (like gold) and fiat money (like the US dollar). Its absolute scarcity, with a certain maximum supply cap of 21 million BTC, positions it as a hedge against inflation and a potential long-term store of value. It is virtual in nature and consequently has no intrinsic value. It resembles fiat money and unlike fiat currencies, which are backed by governments, Bitcoin's value is supported by its users, driven by its global widespread adoption.

Figure 8: Total Supply Will Approach But Never Exceed 21 million BTC

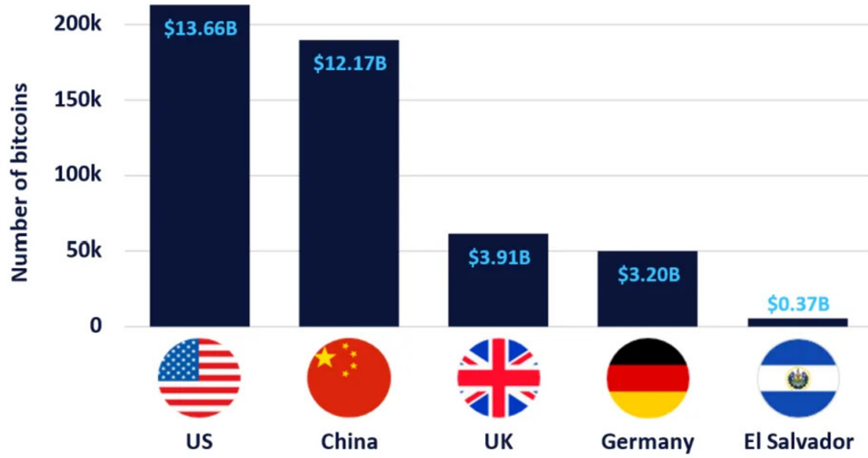


Source: Novum Capital Partners, as of May 31, 2024.

“20% of Bitcoin hasn't moved from its current addresses in five years or longer, which can be considered as lost Bitcoin.”

As of now, there are approximately 19.64 million BTC in circulation, with a fixed limit of 21 million. A significant percentage of this is not circulating. Major holders like MicroStrategy, which owns 214,400 BTC, and various governments, which hold a combined 567,000 BTC, exemplify the trend of long-term holding. These government-held BTC are primarily the result of seized assets from criminal activity. Addresses tied to Bitcoin creator Satoshi Nakamoto contain between 600,000 BTC to 1.1 million BTC, accounting for 3% to 5.6% of the circulating supply. Additionally, 20% of Bitcoin hasn't moved from its current addresses in five years or longer, which can be considered as lost Bitcoin. The **limited circulating supply**, coupled with increased institutional adoption, is expected to boost the price of BTC over time.

Figure 9: Largest Government Bitcoin Holdings



Source: Verdict, BitcoinTreasuries.

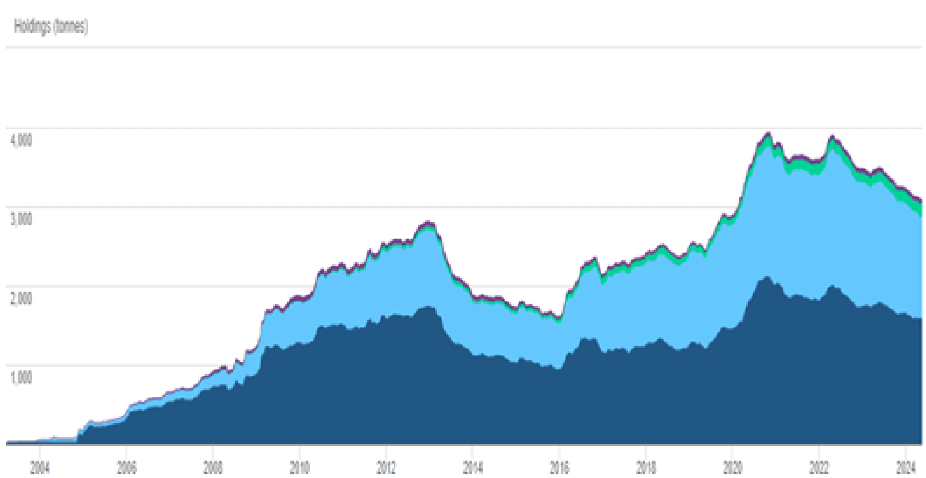
"Both Bitcoin and gold share characteristics that position them as competing asset classes."

Bitcoin vs. Gold

Over the last three years, we have observed a significant outflow from gold ETFs. **This is in parallel with investors increasingly turning to Bitcoin and other cryptocurrencies,** given their potential for higher returns and innovative financial applications—and the fact that it's a better monetary asset than gold for this digital age.

Clearly, both Bitcoin and gold share characteristics that position them as competing asset classes. Both are mined by several independent operators, are not controlled by any government, and are used as stores of value. Gold is primarily used for its store of value abilities and its negative correlation with the US dollar, making it a useful hedging instrument. This real case underscores Bitcoin's growing role as a financial tool in unstable economic environments, even as its long-term hedging capabilities continue to be evaluated. **While Bitcoin's ability to serve as a hedge in the same way is not yet fully established, it has demonstrated real-world effectiveness as a hedge against official currencies** in regions experiencing hyperinflation, such as Argentina.

Figure 10: Gold ETFs Holdings by Region: Other/Asia/Europe/North America)

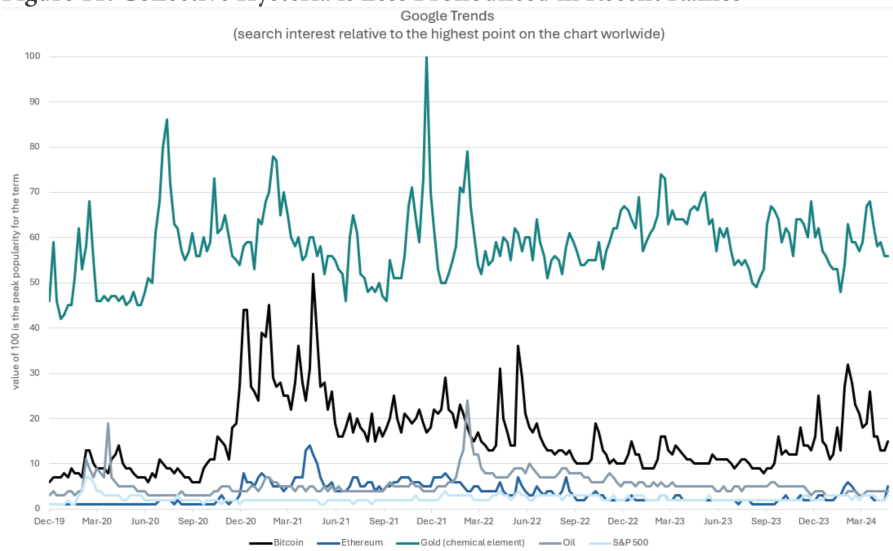


Source: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council.

"An increase in Bitcoin's popularity or hype typically leads to an increase in its price."

Why is this time different from the previous wave in 2021? **Social media activity, such as Google queries, Facebook likes, reposts, and comments, also impacts Bitcoin's price.** An increase in Bitcoin's popularity or hype, often reflected through a rise in Bitcoin-related online activity, typically leads to an increase in its price. This effect, akin to 'collective hysteria,' was less pronounced in recent rallies, suggesting a more sustainable growth pattern.

Figure 11: Collective Hysteria is Less Pronounced in Recent Rallies



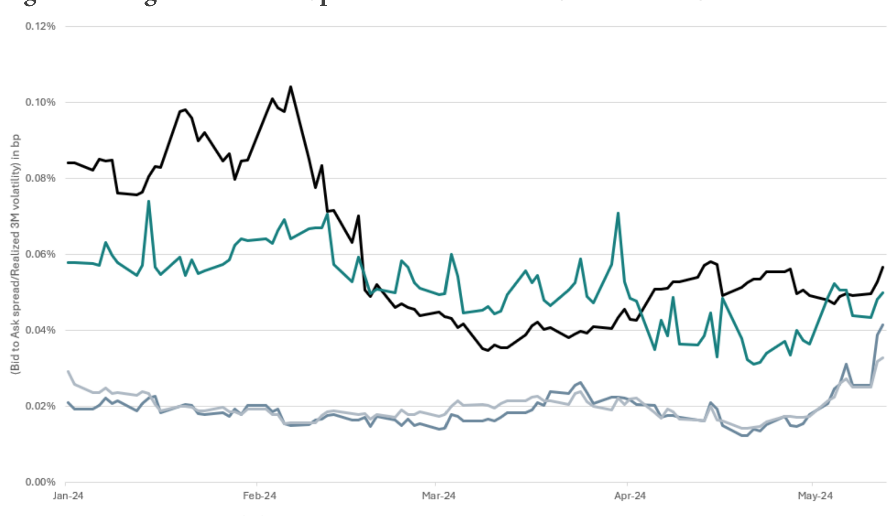
Source: Google, as of May 31, 2024.

"The influx of institutional capital will boost trading liquidity, resulting in tighter bid-ask spreads and a more stable trading environment."

The influx of institutional capital will boost trading liquidity, resulting in tighter bid-ask spreads and a more stable trading environment. Figure 12 illustrates how, since the approval of Bitcoin ETFs, the bid-ask spread for Bitcoin has rapidly declined. This metric is even more significant when adjusted for the amount of movement that investors are exposed to.

To explain this, consider a 0.5% cost for a money market fund that moves by 3%-4% in a year. This cost is substantial compared to the same 0.5% cost for an equity fund that moves much more. Using this methodology, our graph shows that despite the higher bid-ask spread in absolute terms (average 0.2% for Bitcoin versus 0.04%-0.08% for other assets), the relative cost of trading Bitcoin is lower when adjusted for its volatility. **This comparison demonstrates that Bitcoin offers a relatively low cost compared to Nasdaq, gold, and S&P when considering the volatility of each asset class.** Increased liquidity and reduced relative transaction costs highlight Bitcoin's growing appeal as a viable alternative investment for institutional investors.

Figure 12: Tighter Bid-Ask Spread for Bitcoin vs. Other Asset Classes



Source: Bloomberg, as of May 30, 2024.

"Increased liquidity and reduced relative transaction costs highlight Bitcoin's growing appeal as a viable alternative investment..."

Crypto and DeFi Alternative for Investors

Institutionalization and success carry some downside aspects. Bitcoin's correlation with traditional assets (like Nasdaq) significantly increased after the pandemic, which lowered its benefit in a portfolio allocation and necessitated higher returns to enhance portfolio construction. **This has led investors to explore alternative strategies in the crypto space.**

Ethereum, the second largest cryptocurrency by market capitalization, has also seen renewed interest, especially in anticipation of the **Ethereum Spot ETF** approval in the US. Ethereum's crucial role in underpinning its network—upon which many of the industry's most prominent projects and services are built—continues to attract developers and investors alike. Staking on the Ethereum network, facilitated by its liquidity and popular token, has opened up multiple uses. One of the most trending platforms is Ethena.

"Ethena's profitability is largely driven by a delta-hedging trade strategy, which capitalizes on the price discrepancies between futures and spot market prices."

Ethena operates a stablecoin platform that derives its yields primarily from two sources: staked Ethereum (stETH, which currently offers a yield of approximately 3.4%) and delta hedging on its Ethereum futures. Ethena's profitability is largely driven by a delta-hedging trade strategy, which capitalizes on the price discrepancies between futures and spot market prices. When futures prices are higher than the spot prices—a condition known as contango—this spread can be profitably locked in. For instance, the current funding rate for Kraken ETH Perpetual futures could yield up to 32.2% annually, although such rates are highly volatile and subject to rapid changes. The execution of Ethena's strategy is managed by a company based in Rome, which has received Virtual Asset Service Provider approval from the Italian regulator. However, this strategy faces significant risks in a market condition called backwardation, where futures prices are lower than spot prices. Such scenarios are prevalent in bear markets with negative funding rates.

What's Next? Is Bitcoin a Trump Trade?

Notably, former President Donald Trump has become the first major party candidate to accept crypto donations, positioning himself as crypto's advocate in the 2024 campaign. One of Trump's key economic plans is a pledge to make his 2017 tax cuts permanent, a move that the Committee for a Responsible Budget, a think-tank, expects to cost USD4 trillion over the next decade. His programs advocate continued tax cuts and more expensive things. **This endorsement aligns with higher fiscal spending and pressure on the Fed to lower interest rates, creating the most favorable environment for rising cryptocurrency prices,** in a trade called dollar debasement.

The evolution of Bitcoin ETFs paves the way for listed options trading, enabling large-scale carry strategies like short volatility and call overwrites. These strategies typically lower realized volatility, making Bitcoin more attractive. Increased liquidity and diverse market participants are expected to reduce price volatility by absorbing large orders without significant disruptions.

"These strategies typically lower realized volatility, making Bitcoin more attractive."

In conclusion, the institutionalization of Bitcoin and Ethereum brings significant changes, including increased regulatory scrutiny, improved trading liquidity, and the development of advanced financial derivatives. As institutional investors enter the market, regulatory bodies are likely to impose stricter regulations, enhancing market confidence and legitimacy. However, this may also influence market dynamics, affecting retail investors. **These changes will foster a mature, stable market, benefiting both institutional and retail investors, and solidifying the role of digital assets in the global financial system.** We believe we are still in the very early innings of institutional investor adoption.