

July 2024

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venture

CUT THROUGH QUARTERLY AUSTRALIAN VENTURE CAPITAL FUNDING REPORT Q2 2024

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Q2 2024 AUSTRALIAN VENTURE CAPITAL FUNDING

\$1.5B TOTAL FUNDING

99 DEALS

Logos included in the grid: PRISMA Stake, GeneS, SupplyScope, tability, enviz, hometime, Deelligence, meyka, BRIDGIT, Genero, phonely, unseen, Atticus, AgriWebb, kite therapy, BARE., Subble, DISCO, HIT-IO, Nucanon, xefco, COVER GENIUS, OUTREAD, honey, Hysata, ALTA GLOBAL GROUP, Sindy, data zoo, PEEPLCOACH, The Leaf Protein Co., Kindling., klean, diversity atlas, WORKREX, kashcade, diraq, andromeda, PSYLO, PLANCARE, Prep local, sunday, BEARHUG, identitii, RAYGEN, iion, Clean Slate CLINIC, AQUILA, lyngo, YBL, asseti, FOREMIND, nexl, humii, MATRAK, 1Breadcrumb, SwitchBoard, PAPERLY, Linkby., FIZZ, Icopit, AVESSE ENERGY, maxime, SN, BYGEN, verida, NAKED RIVALS, LIQUID INSTRUMENTS, ATEC, FARMBOT MONITORING SOLUTIONS, betashares, TrueState, IIF, Affinda, Brainfish, RADIAN ARC, BRAUZ, CartIgniter, CFLOAD, INNOVATION BAY, GPT Toolbox, GREAT WRAP, dooh.ly, RELECTRIFY, MELODIE, SAMSARA, SpatialGPT.ai, Home BUILDER REVIEWS, NRN National Renewable Network, WeMoney, GPN vaccines, Archistar, o&t OMNISCIENT NEUROTECHNOLOGY, V2

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AND AUSTRALIA'S TOP STARTUP INVESTORS FOR THEIR CONTINUED PARTNERSHIP



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CUT THROUGH'S VIEW: .AI WON'T GET YOU .FUNDED

There is a significant gap between the AI investment hype and funding reality. While flashy funding rounds for some global AI startups make headlines, most AI companies will struggle to secure capital.

The investment landscape shows a clear division. AI companies led by experienced serial entrepreneurs or highly technical founders with impressive track records receive the majority of the funding. In contrast, first-time founders, especially those working on common ideas without notable resumes, find it difficult to attract investment. Investors often prefer to allocate their funds to other, less crowded sectors.

This disparity misleads many new founders who see the large funding rounds and believe they will apply to them. However, as the AI space becomes more saturated, investors are increasingly cautious. This hesitation is evident in the June Investor Sentiment Survey of Australian VCs, which revealed that 57% of firms haven't invested in

any "AI-first" startups in 2024, and only 19% showed strong interest.

Elizabeth Yin, Founding Partner of US-based Hustle Fund and a friend of Cut Through, recently highlighted that even successful AI startups must raise substantial amounts of money to compete, as increased competition drives up customer acquisition costs. This concentration of capital among a few startups creates a significant competitive advantage. With substantial funding, these companies can acquire more customers, gather data, improve their models, and stay ahead of the competition.

Investors need to believe that a startup can secure enough capital to succeed. This isn't a market where bootstrapping will likely lead to success. Additionally, AI companies that began operations more than two years ago already have significant advantages in terms of customers and data, making it challenging for new entrants to catch up.

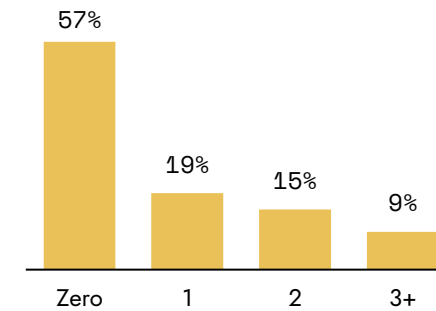
Q2 marked the first quarter that AI-first startups topped the deal count leaderboard in the Australian ecosystem. These deals ranged from a \$220K pre-seed to a \$30M Series A, with an average deal size of \$5.2M—well below the average round size of \$15M across all sectors for the quarter. This indicates that while there is significant activity, the amounts being raised are still relatively modest.

AI investment hype is less widespread than the media suggests, at least locally. Our investor sentiment survey highlights a cautious approach among Australian VCs.

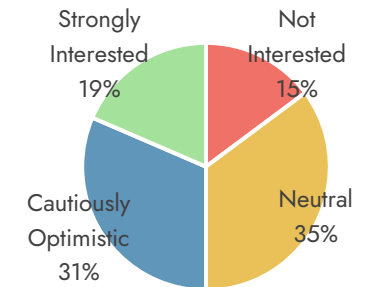
Founders need to understand that the AI funding landscape is more complex and competitive than it appears. While headlines focus on spectacular funding rounds, only a select few reap the benefits, leaving many to face a much tougher journey similar to that faced by founders across almost every other sector.

INVESTOR INSIGHT:

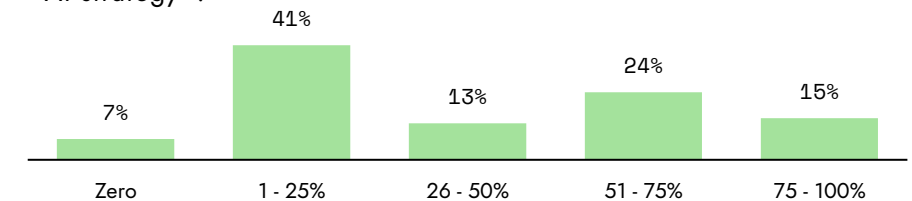
How many "AI-first" startup has your firm invested in 2024?



What describes your firms view on investing in "AI-first" startups?



What % of your portfolio companies have outlined an "AI strategy"?



INVESTOR INSIGHT: What is the biggest challenge you face when evaluating AI-first startups?

Regulatory and ethical concerns

Availability of local talent

Lack of clear monetisation strategy

Competition from international competitors

High valuation expectations

Unproven technology or product

SMALLEST CHALLENGE

BIGGEST CHALLENGE

TL;DR – FIVE THINGS TO KNOW

Quarterly announced funding hit a six-quarter high in Q2 2024, reaching \$1.5B for the first time since 2022. This surge was driven by the return of mega-deals, with six startups raising \$100M+ funding rounds. Total announced deals also bounced back, with 99 deals distributed across full spectrum of funding stages.

01

Q2 marked a significant recovery in the Australian startup funding landscape, delivering the strongest funding quarter since Q4 2022. The total deal count increased, signalling renewed investor activity across all stages. While it's too early to call it a trend, this resurgence reflects improved investor sentiment and sets up the potential continuation of this positive shift in the coming months.

02

Investor sentiment continued to improve in Q2 2024, with 46% of investors describing the funding market as more favourable compared to last quarter. Additionally, 42% reported assessing more deals, and 30% rated the quality of deal flow as good or excellent. Portfolio health showed mixed signals: reported layoffs fell significantly, yet there was a marginal uptick in startup closures, indicating ongoing market adjustments.

03

Despite a record level of participation at 45% of reported deals at the Pre-Seed stage and a five-year high at the Seed stage, Q2 saw a dismal outcome for female-led startups overall. Funding for female-founded startups slumped to its lowest level since 2019, with later-stage participation dropping significantly. This stark decline underscores the persistent difficulties female founders face in securing substantial funding rounds beyond the early stages.

04

The number of deals exceeding \$100M in Q2 reached levels not seen since Q1 2022, with six mega deals announced. While promising, deals in the \$20-50M range remain below 2023 levels. A significant backlog of startups that raised \$20M+ in 2021-2022 without recent rounds suggests more large deal announcements could occur later this year, pointing to a potentially robust H2.

05

The globally hyped AI sector achieved the highest deal count for the first time in Q2 2024, with 16 AI-first startups securing funding. Fintech topped total funding, driven by three \$100M+ deals. Climate Tech/CleanTech and Biotech/Medtech remained consistently supported, with most deals in these sectors at Series A or later stages. This highlights sustained specialist investor interest in deeptech and health-related innovations.

THE HEADLINE FIGURES



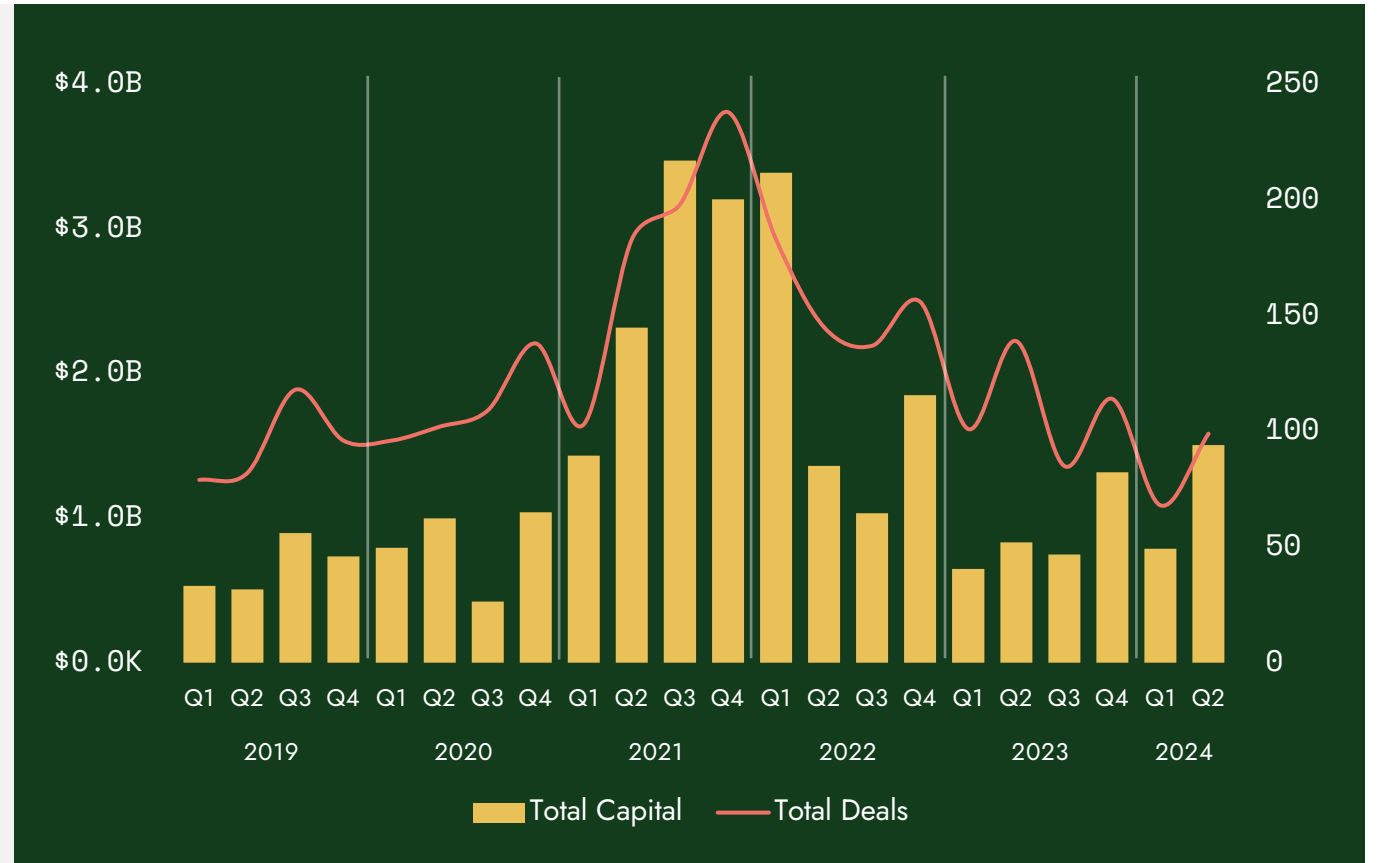
In Q2 2024 Australian startups announced

\$1.5B

Capital raised across



99 DEALS



PARTNER INSIGHT:

LEGISLATIVE REFORM AT RISK OF STIFLING ANGEL INVESTMENT

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The State of Australian Startup Funding 2023 highlighted angel investors' importance to Australia's startup ecosystem, concluding that "angel investing is becoming an increasingly vital component of a founder's fundraising journey."

Several proposed legislative changes have the potential to inadvertently reduce the pool of angel investor capital in Australia. Specifically, proposed changes to the "sophisticated investor" test and the proposal to tax unrealised gains in superannuation have drawn strong criticisms from the startup community.

'Sophisticated investors' regime

Treasury is reviewing the financial thresholds used to determine whether an investor qualifies as a 'sophisticated investor' and is eligible to access certain high-risk investments, including investments in Australian startups.

Under the current thresholds, which have been in place since 2001, an accountant can deem an investor to be a 'sophisticated' investor if the investor:

- has \$2.5 million in net assets (including their primary place of residence); or
- has a gross annual income of at least \$250,000 for the past two years.

The rationale for these thresholds was the assumption that such individuals 'have the knowledge or experience to understand and take on additional risks or the means to acquire professional advice'.

The government is proposing an increase to these thresholds. While the government has not yet indicated by how much the thresholds may be raised, if ASIC's recommendation is adopted, we could see the net assets threshold increase to \$4.5 million and the income test increase to \$450,000 to account for inflation since 2001, with periodic increases for inflation in the future.

As many startup investments are only available to sophisticated investors, these increases would reduce the pool of angel investors who can invest in Australian startups.

Tax on unrealised gains in superannuation

In early 2023, the Federal Government proposed changes to Australia's superannuation system, which may affect investment in early-stage companies. The proposed changes mean an additional tax will be imposed on unrealised capital gains of superannuation funds with a balance exceeding \$3 million. From a startup perspective, the issue is problematic because a number of angel investors use self-managed super funds (SMSFs) as the vehicle to make their angel investments.

Some politicians and venture capital funds have criticised the proposed legislation, urging the government to properly consider the changes' consequences for startups before the regime comes into effect.

This new tax may discourage angels using an SMSF structure from investing in startups, particularly because:

- startups typically don't pay dividends, and therefore most

of the investor's return will be in the form of capital gains;

- these capital gains are typically unrealised for many years until the company ultimately undertakes a liquidity event;
- in some cases investors may achieve significant increases in their shareholding value before realising their investment, leading to the payment of tax on a gain that may be many years away;
- startups are inherently volatile, and if an investor pays tax on an unrealised gain and the value subsequently drops, the investor will not be able to get that tax back immediately and
- the valuation of startups can be complex and lead to increased compliance costs.

Conclusions

Ultimately, these proposed reforms can potentially decrease the pool of capital available to Australian startups and may lead to a funding gap for start-ups at the pre-seed and seed stages that rely heavily on angel investment. Even later stage startups may need to increasingly rely on institutional investors, debt funding, and foreign investors. In a globally competitive environment, this may be a factor that leads Australian founders to establish or move their businesses offshore. With fewer angel investors, startups would also lose access to the experience, expertise and networks that angel investors can contribute.

PARTNER INSIGHT:

WHY IT PAYS TO THINK LONG-TERM WHEN ESTABLISHING YOUR TREASURY FUNCTION



There's a reason the term 'growing pains' is so often used to describe the experience of trying to take a scale-up company to the next level: fundamentally, growing a company is difficult.

As a scale-ups growth accelerates, founders and their teams are suddenly expected to become astute businesspeople, adept at managing everything from overlapping regulatory obligations to client services and complaint handling, without taking their eye off what really matters: products and the experience they deliver to customers.

This overload of expectations makes it tempting for scale-ups to build business operations piecemeal, implementing a series of just-in-time solutions that meet their current needs but are incapable of scaling with a company's growth.

Treasury: not by half

Overwhelmingly, this method is used because it works.

Often, when the time is right for significant change, new partners offering the right combination of capital and skills facilitate a serious upgrade to business processes and technology, ending many growing pains at once.

However, this is not the case when it comes to financial operations.

Companies that persist with a piecemeal approach to financial operations can see founders maintain oversight of critical

Treasury responsibilities, including adding accounts and processing payments using entry-level banking services.

While this approach may suffice early in a company's development, it becomes a serious limitation when positioning for growth, with decision-makers suffering from a lack of accurate real-time insights into the company's financial health, leading to liquidity problems and hamper expansion efforts.

Moreover, the absence of a cohesive and evolving financial strategy exposes scale-ups to significant risks, leading to potential financial losses.

For example, some scale-ups seeking growth in international markets might employ basic foreign exchange risk management strategies, which fail to adequately protect them from volatile currency fluctuations, causing financial instability.

Another challenge is regulatory compliance, which becomes increasingly challenging without robust financial operations, potentially resulting in legal and reputational repercussions.

Building a treasury for tomorrow

Scale-up companies face unique challenges, and it is essential to have the right partner who understands these challenges and can help navigate complex financial landscapes.

Start-ups in Australia always have a lens towards scaling their operations internationally as they reach a critical mass. This requires:

- a) foundational treasury capabilities that support integration across jurisdictions without involving significant change management;
- b) working capital solutions that are interoperable across markets;
- c) workflow tools that simplify cash flow forecasting across entities and
- d) technological solutions such as Real-time payments, APIs and wallet solutions that respond to a diverse set of consumer expectations across boundaries.

At HSBC, we have developed a leading Treasury solution designed to evolve with scale-ups, by providing flexibility to adapt to a scale-ups changing needs and dynamic market conditions. Our solutions integrate several Treasury functions into a cohesive system, enhancing operational efficiency, reducing risks, and providing a comprehensive view of your company's financial health.

It's critical for scale-ups to build a Treasury function that can serve their purposes not only for today but also for the growth of tomorrow.

PARTNER INSIGHT: HOW SECURITY AND COMPLIANCE DRIVES GROWTH FOR STARTUPS IN DIFFICULT TIMES



As digital transformation continues to redefine how we engage with customers, the need for robust security and compliance measures becomes critical—especially for those in the start-up sector looking to scale their GTM operations. This becomes even more challenging under the backdrop of escalating cybersecurity threats and constantly evolving regulatory demands.

The double-edged sword for most startups is delivering the right level of security without overinvesting at the wrong time.

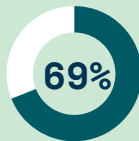
Some key takeaways from Vanta’s State of Trust Report (Australia edition) illustrate this point and highlight the critical need for improvement:

- Two-thirds (67%) of businesses say they need to improve security and compliance
- Nearly one in four (23%) rate their organisation’s security and compliance strategy as reactive
- Only 9% of IT budgets are dedicated to security

Why better security could be the silver bullet for unlocking revenue growth

According to the State of Trust Report, more than two-thirds (69%) of Australian businesses say that customers, investors and suppliers are increasingly looking for proof of security and compliance.

As a key factor in successful business deals both locally and abroad, this highlights the critical importance for start-ups to ensure their security and compliance are as effective as possible.



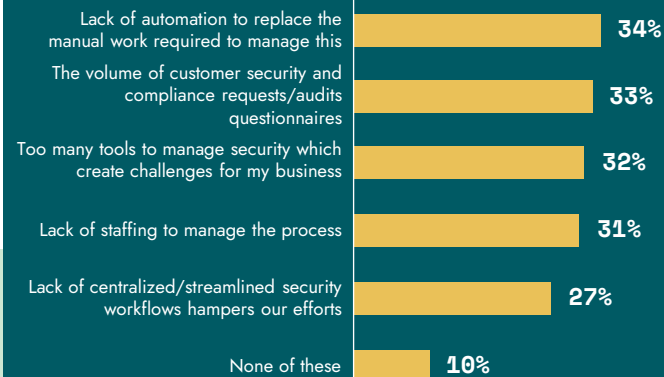
Two-Thirds

of businesses say that customers, investors, and suppliers are increasingly looking for proof of security and compliance.

The challenges of improving—and proving—your security posture

While the need to demonstrate security and compliance practices is clear, many companies are struggling to provide this evidence to their customers—costing them potential revenue and growth opportunities.

What are your biggest barriers to proving and demonstrating security externally?

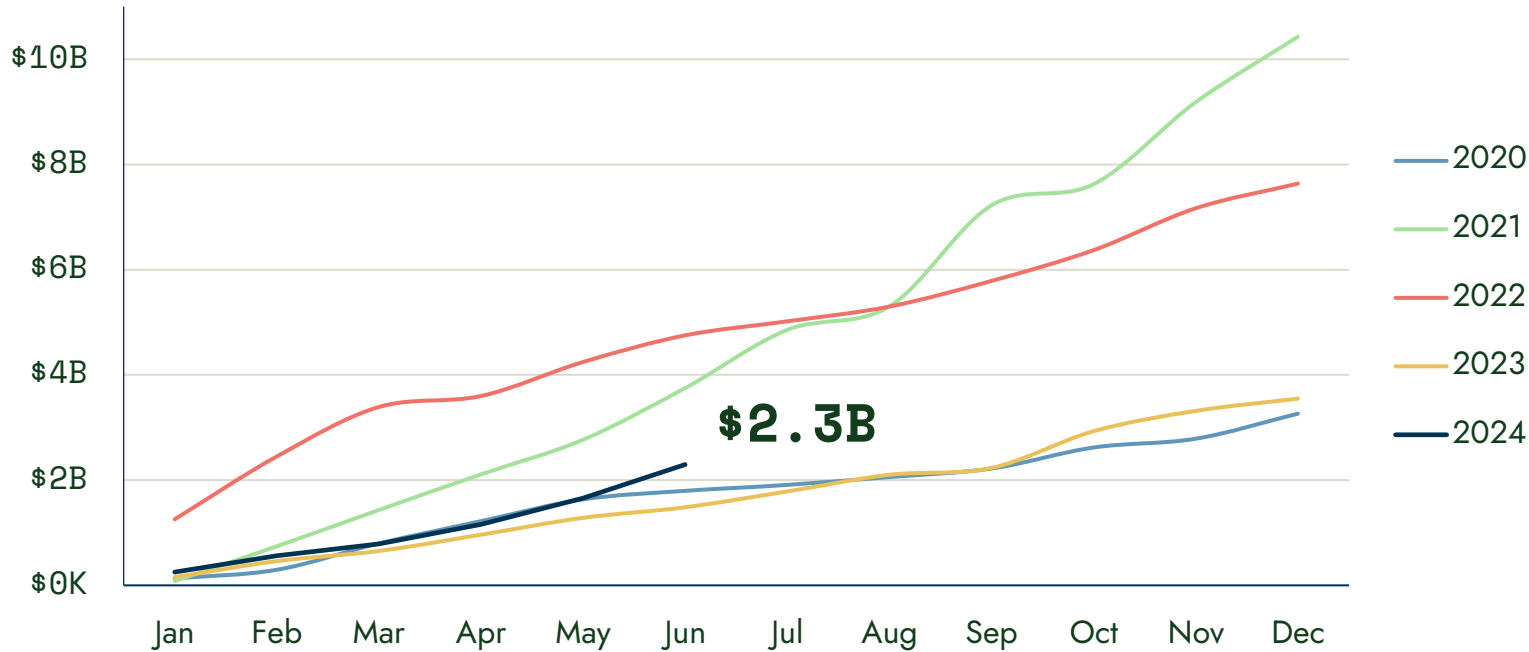


Want to turn more opportunities into revenue? Here are Vanta’s top tips to maintain and demonstrate your security posture

1. **Start early:** Integrate security and compliance practices early on to establish a solid foundation.
2. **Take a comprehensive approach:** Develop a holistic strategy that addresses both security and regulatory compliance requirements.
3. **Embrace automation:** Use automation tools to streamline processes and maintain consistent compliance standards.
4. **Monitor continuously:** Implement ongoing monitoring and assessment protocols to address evolving threats and regulatory changes proactively.
5. **Collaborate with specialists:** Consider partnering with specialist providers to access additional expertise and scale your security and compliance operations effectively.

TOTAL CAPITAL RAISED

The precarious start to 2024 gave way to signs of life returning to funding markets, with Q2 delivering the strongest quarter for Australian startup funding since Q4 2022. As we mentioned last quarter, the funding level announced in Q2 would serve as the first real litmus test for investor activity in 2024, given most processes closed out in Q2 would have commenced post the 2023/24 summer break. The number of deals closed during the quarter also bounced back, which was particularly encouraging given that it was a quarter absent of any major accelerator cohort announcements. There was a spread in activity across all deal stages, with the split between Seed-and-earlier and Series A-and-later rounds being approximately 50/50.



INVESTOR INSIGHT

“Sentiment has definitely shifted. While investors are more gun-shy and arguably hesitant to deploy into moonshot-type opportunities, we have seen an increase in competition for deals and a greater appetite from investors to co-invest with us as the lead investor in syndicated rounds. Many investors say that their quality bar is higher, but we believe most are prioritising opportunities with a high likelihood of solid returns over opportunities with a slim chance of phenomenal returns.”

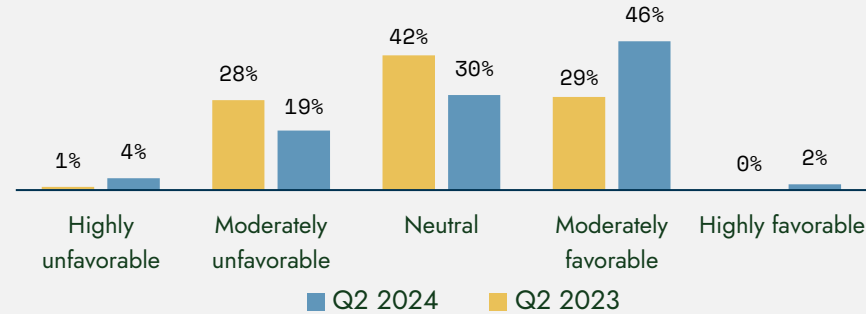
Investor
Investor Sentiment Survey
June 2024

INVESTOR INSIGHTS: DEAL ACTIVITY

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

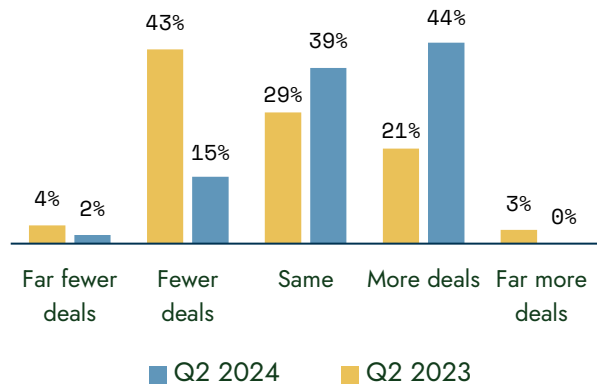
- 1 Invest in new startups
- 2 Ensure current portfolio is well capitalised
- 3 Fundraising from LPs
- 4 Marketing and business development
- 5 Internal firm initiatives

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

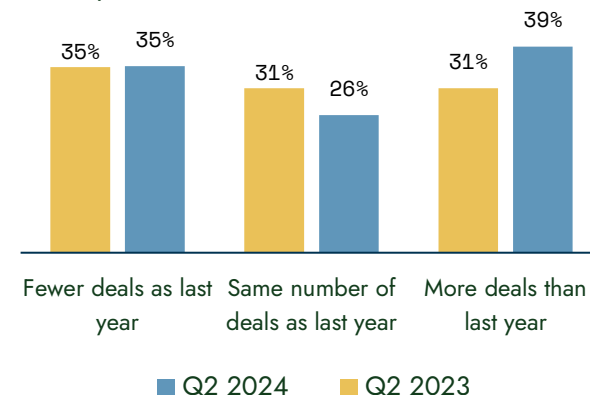


"It's really hard to raise capital at the moment. But in all honesty, we're not seeing the quality of deal flow that we have in previous years. Expecting an uptick in the latter half of this year (hopefully)."

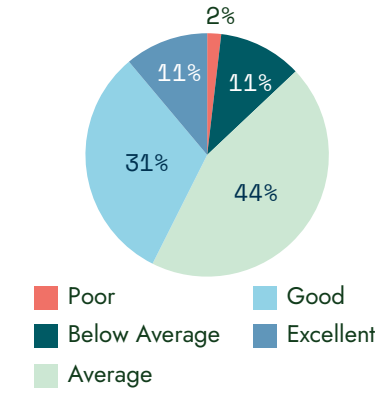
Compared to this time last quarter, how would you best describe the volume of new deals your team is assessing?



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?

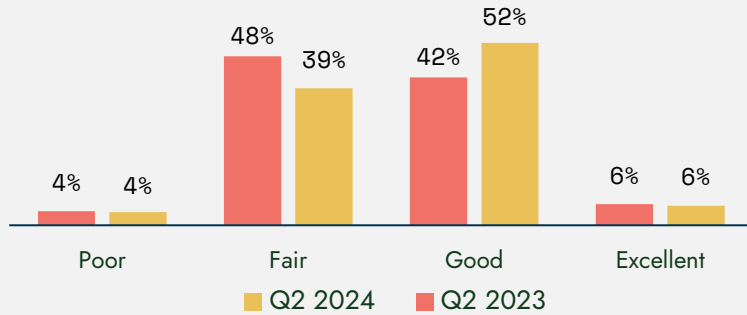


"We've never been busier at the top of the funnel than we were in the first half of 2024. That said, we've a far lower percentage of deals progress beyond our initial review stage than prior years. For those that have progressed, we've found ourselves in competitive processes with many investors fighting for allocation."

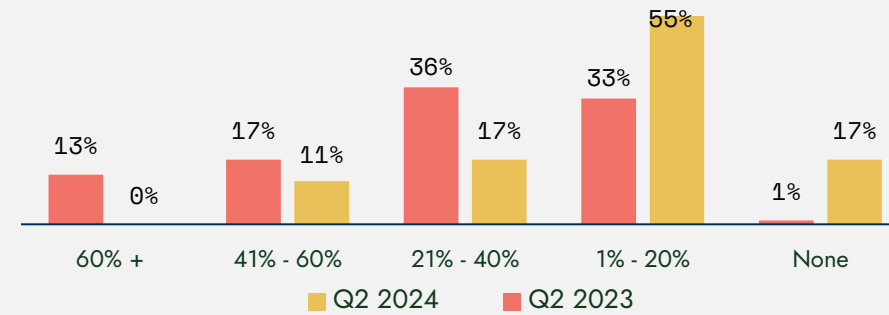
Investors
Investor Sentiment Survey
June 2024

INVESTOR INSIGHTS: PORTFOLIO

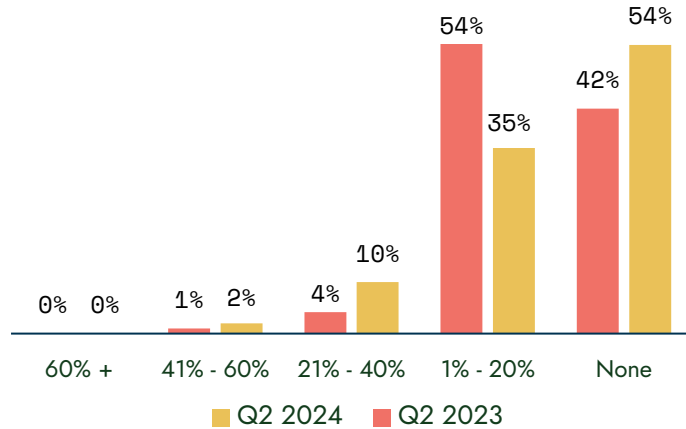
How would you rate the overall health of your current portfolio companies?



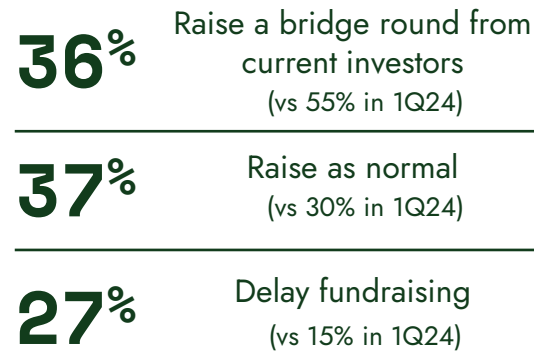
What percentage of your portfolio companies have had to lay-off staff this quarter or plan to?



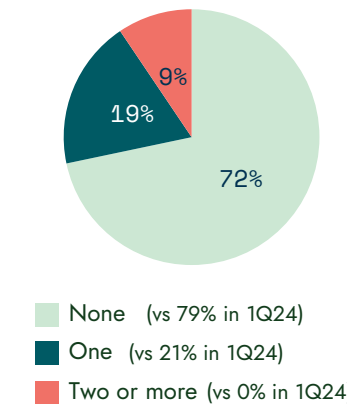
What percentage of your portfolio companies took on venture debt this quarter?



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



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



"I think we will see more VC funds in Australia who deployed capital at the peak of cycle in 2021 be unable to raise new funds. We are expecting there to be fewer people working in VC in Australia by the end of this year, and potentially some consolidate of VC funds and managers are unable to sustain themselves..."

We also feel that few Australian VC firms have developed a robust investment thesis for AI, and the market is frothy. AI will continue to put pressure on pure-play SaaS models, and AI-first ventures that can't establish a durable competitive advantage will likely be commoditised as a feature of someone else's product."

Investor
Investor Sentiment Survey
June 2024

ECOSYSTEM INSIGHT: THE NEXT DECADE OF AUSTRALIAN AND NEW ZEALAND VENTURE

At Innovation Bay's May 2024 "Inspire" conference, Craig Blair, Co-Founder and Partner at Airtree, delivered a keynote reflecting on the past decade of ventures and startups in ANZ. He also shared his insights on what the next ten years might bring.

We asked Craig to compile some of his thoughts for this quarter's report.

It's not our job as venture capitalists to predict the future, but we spend a great deal of time thinking about it. That's especially true as we celebrate Airtree's 10th anniversary and think about how the next decade of venture, startups and technology will play out here in Australia and New Zealand.

If we do some back-of-the-napkin maths, local VC funds have roughly \$2.5 billion of dry powder. To deliver the returns expected of us—3X—we will need to deliver \$7.5 billion in capital back to our investor, meaning we'll need to see \$100 billion in Enterprise Value generated (assuming ~7% exit stake)

Seems like a lot, right? It is, but it's well within our reach. Over the last two decades, Aussie and Kiwi software companies like Atlassian, Afterpay, Canva, Wisetech and many more have generated over \$309 billion in enterprise value. Currently, we see 30-40 companies each year reaching valuations of over \$100m, with one or two of these becoming billion-dollar companies. This is a significant increase from ten years ago, thanks to the growth in talent, capital and ambition. We've got every reason to believe this trend will continue and potentially grow tenfold over the next decade.

It's a promising outlook, not just for startups and VC funds but for the whole economy. If we dig into the details, assuming 10X enterprise value/annual recurring revenue (ARR)—high, but let's keep the maths simple—and \$100k (ARR) per employee, we'll need to create at least 100,000 more jobs to hit the goal of \$100 billion in Enterprise Value.

There's huge potential for technology to be a growth engine for jobs in the Australian economy, and we're already seeing a flywheel of talent coming from this generation's success stories like Canva, Go1, Employment Hero, Linktree and Immutable.

None of this will happen magically overnight. As VCs, we have to play our part in making it a reality by demonstrating that venture capital is a sustainable and attractive asset class that can deliver attractive returns to our investors for the risks they accept.

Sitting on paper valuations is nice, but it's not enough. We must put as much rigour and energy into realising returns not just for our investors but for founders who toiled for years on relatively low salaries and have taken much bigger risks.

Chatter about venture capital as a "cottage industry" will become a thing of the past, and we expect to see more funds specialise by sector, stage and type over the next decade. VC funds will need to continue to carve out their competitive advantages when it comes to seeing, picking and winning the best deals. And there's a lot we must be actively designing against in the process—namely hubris, groupthink, homogeneity and power imbalances. We should all force ourselves to watch HBO's Silicon Valley to come face to face with what a parody of our world looks like.

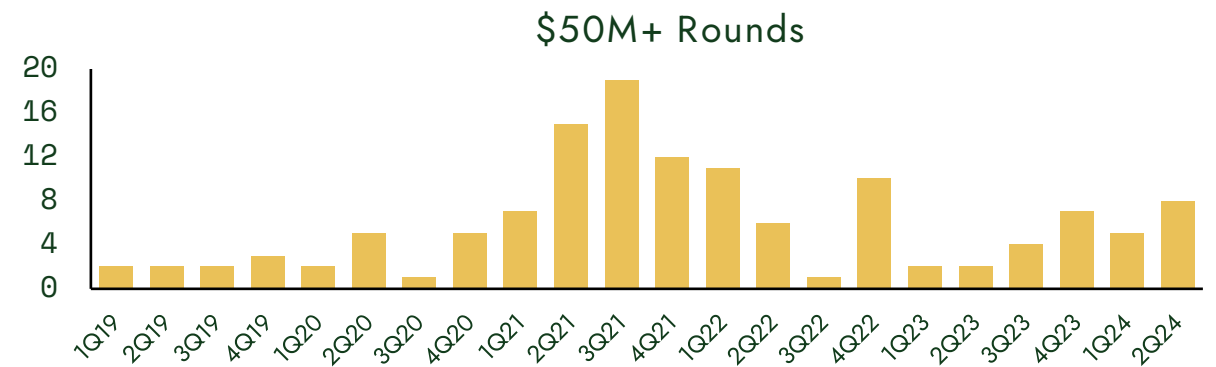
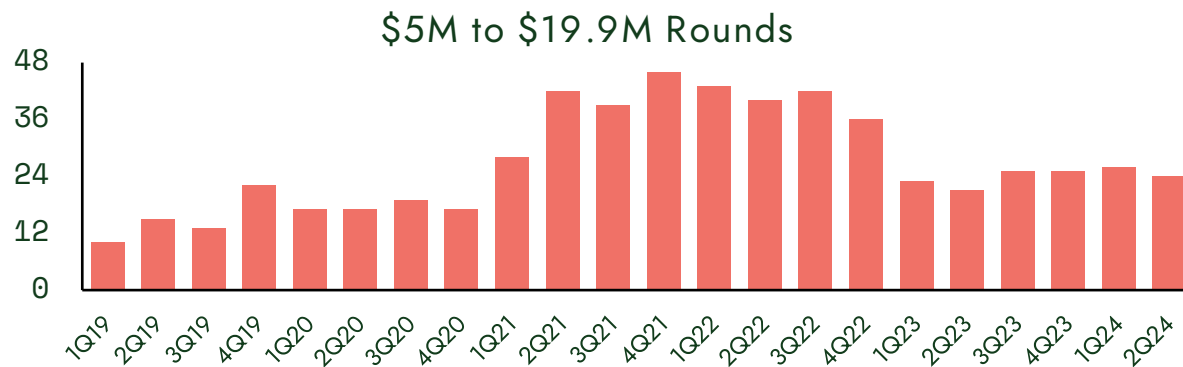
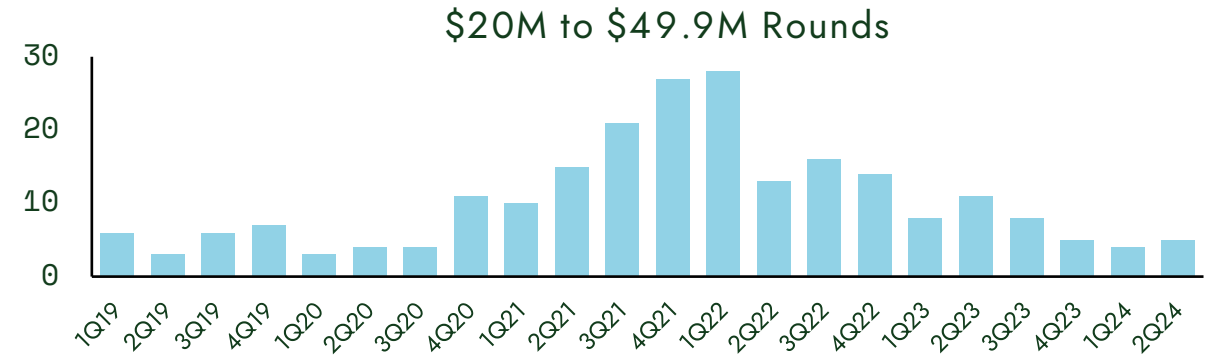
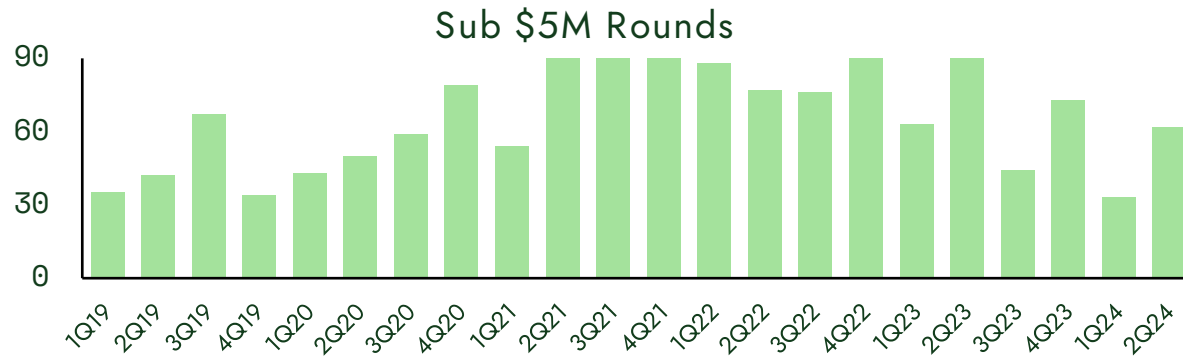
We'll leave the crystal balls to fortune tellers and instead focus on being optimists. We're big believers in Aussie and Kiwi technology, and we've got all the ingredients we need to deliver the numbers and success stories we need over the next decade.

Craig Blair
Co-Founder & Partner



HIGH VOLUME AT SMALL & LARGE ENDS OF TOWN

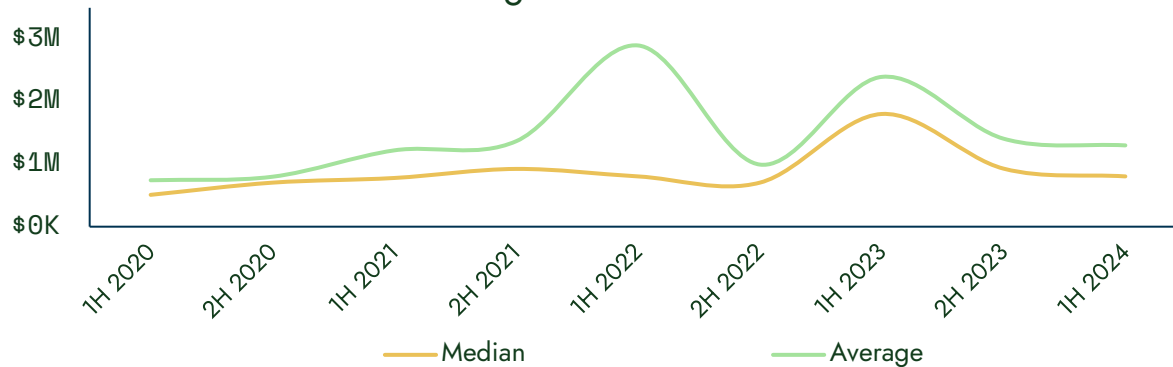
After falling to their lowest level on record in Q1, deals under \$5M bounced back, reaching their highest level since 2022 when Accelerator cohorts are omitted from the data. One strong quarter doesn't change the fact that it is still a tough raising environment for early-stage startups, with a noticeable pullback from angel investors and higher progress expectations from specialist Pre-Seed and Seed funds. Rounds of \$5M to \$20M have remained remarkably steady since the pullback began at the end of 2022, while the major uptick in larger rounds occurred at the highest-end in deals over \$100M.



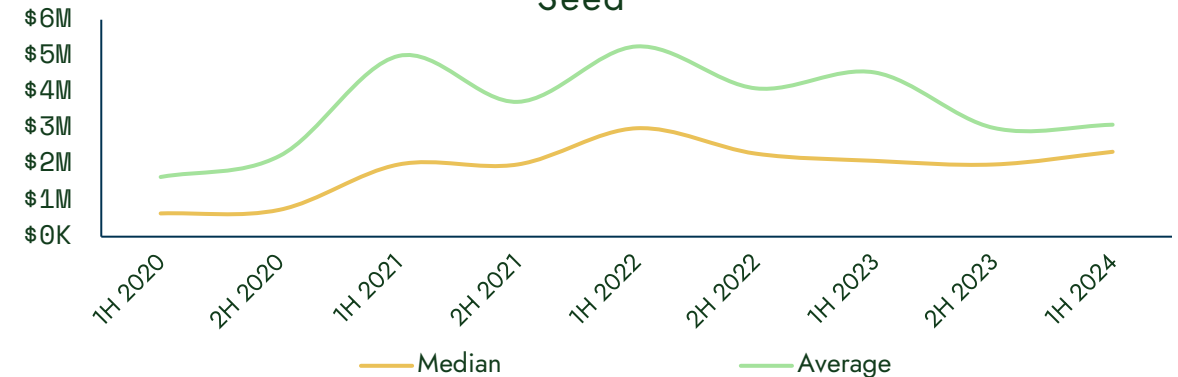
CHANGE IN ROUND SIZES

Median deal sizes at all stages remained relatively steady from the prior quarter, supporting the insight from prior Investor Sentiment Survey data suggesting valuations have stabilised. While imperfect, we view round sizes at each stage as a reasonable proxy for valuations, given that average dilution levels at each round typically stay within a tight band regardless of the stage in the cycle. The “haves and have-nots” dynamic continued to show, with outlier deals (seen visually below by the spread between the median and average) continuing to increase in prevalence, particularly at Series A and later stages.

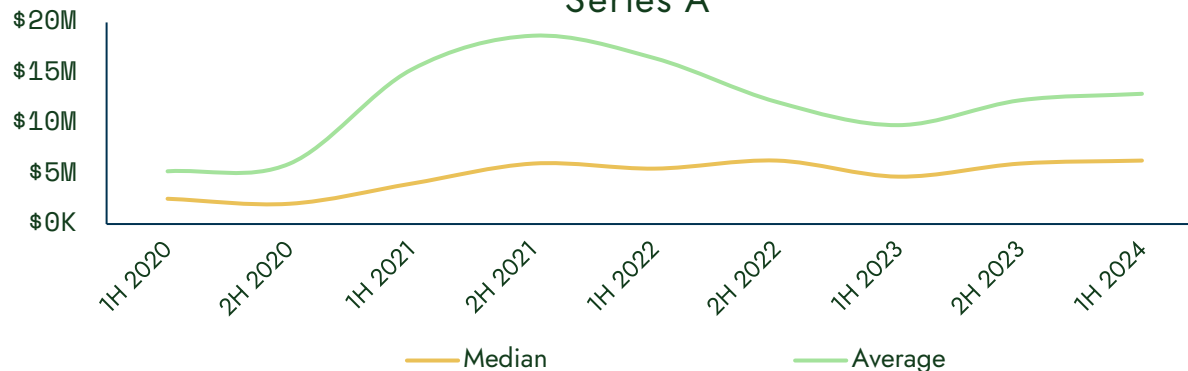
Angel + Pre-Seed



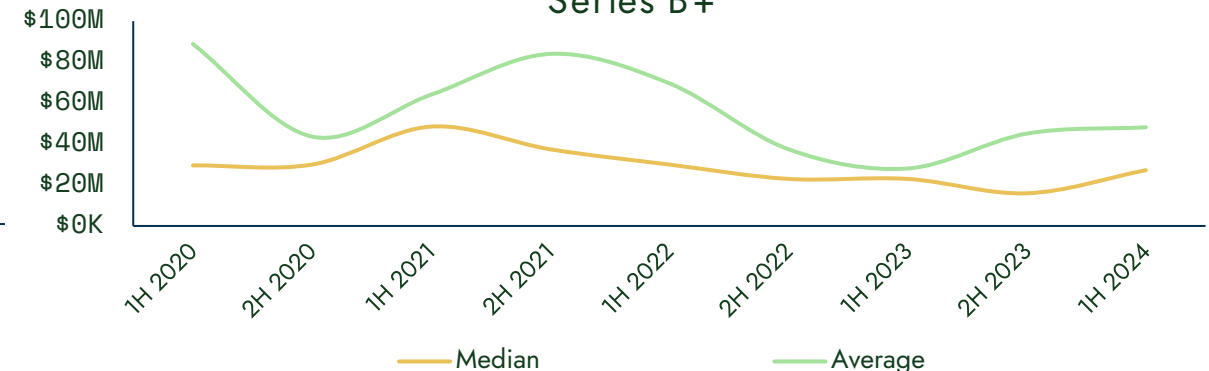
Seed



Series A



Series B+

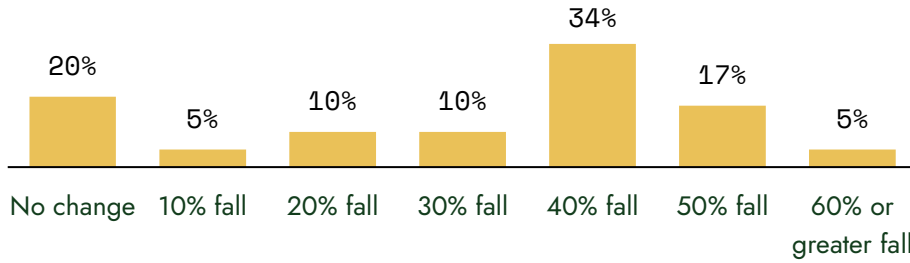


VALUATIONS

INVESTOR INSIGHT:

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

Pre-Seed + Seed

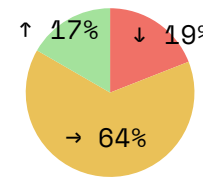


Average fall

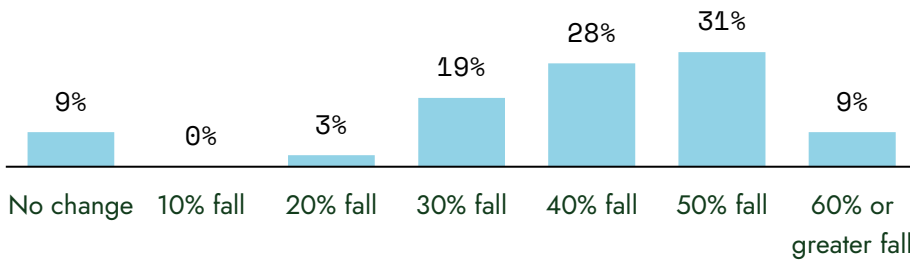


vs 29% in 4Q23

Compared to Q1 valuations have



Series A + B

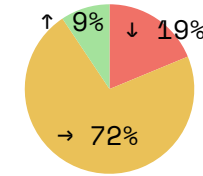


Average fall

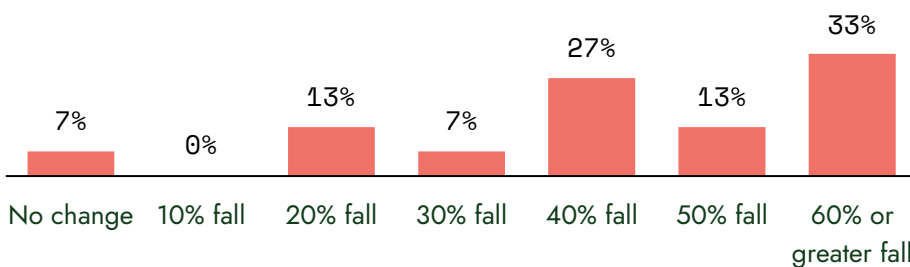


vs 40% in 4Q23

Compared to Q1 valuations have



Series C+

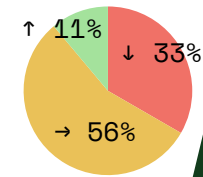


Average fall

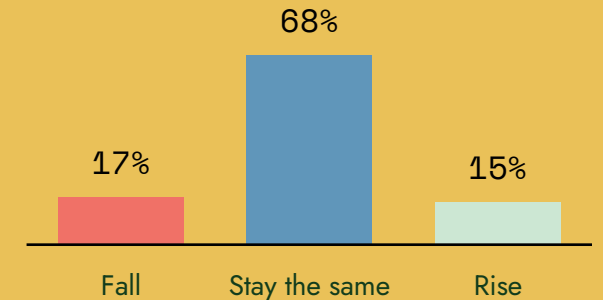


vs 47% in 4Q23

Compared to Q1 valuations have



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



Cut Through Venture Investor Sentiment Survey June 2024



INVESTOR INSIGHT

"Overall sentiment is better for the Seed to Series A trajectory. We are seeing good investor interest in our high-quality assets that are looking to raise Series A. Valuations appear to have normalised for the most part. AI is a great opportunity, but we have yet to see the type of quality we need out of the earlier cohorts."

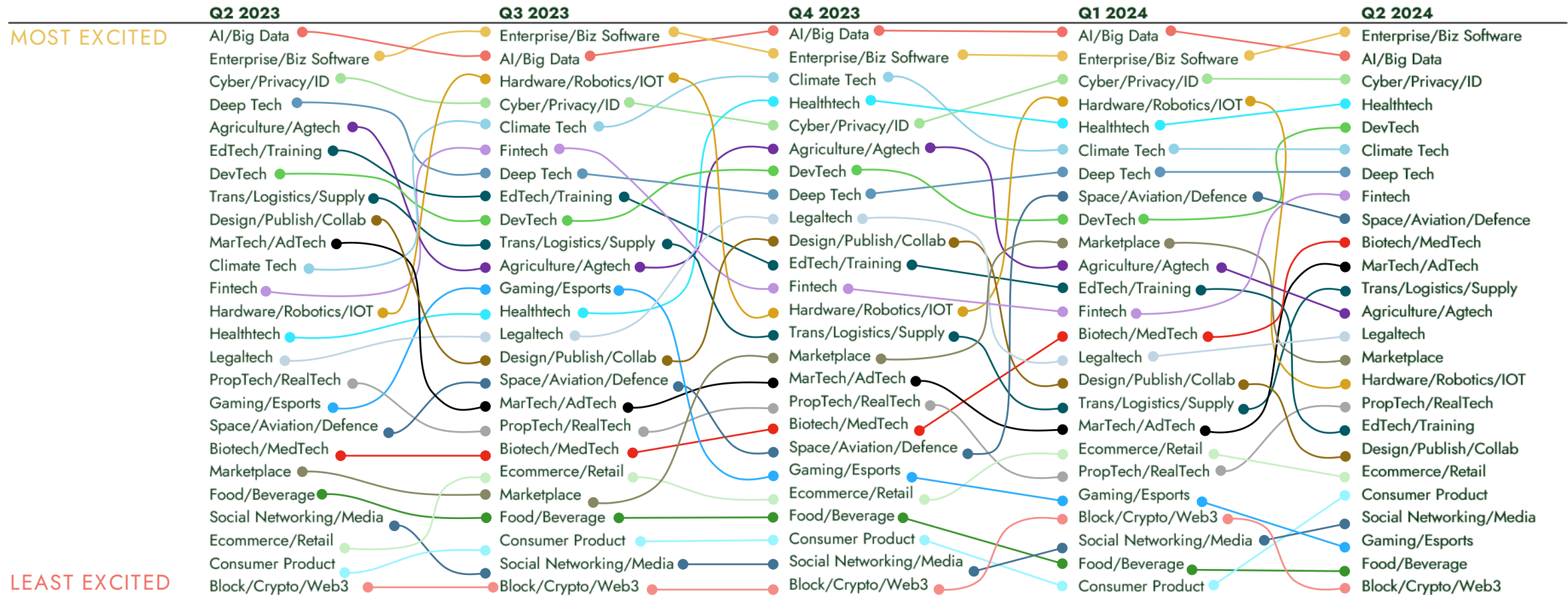
Cut Through Venture Investor Sentiment Survey June 2024

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Investor
Investor Sentiment Survey
June 2024

SECTOR SHIFTS IN POPULARITY

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



SECTOR SHARE OF FUNDING & DEALS

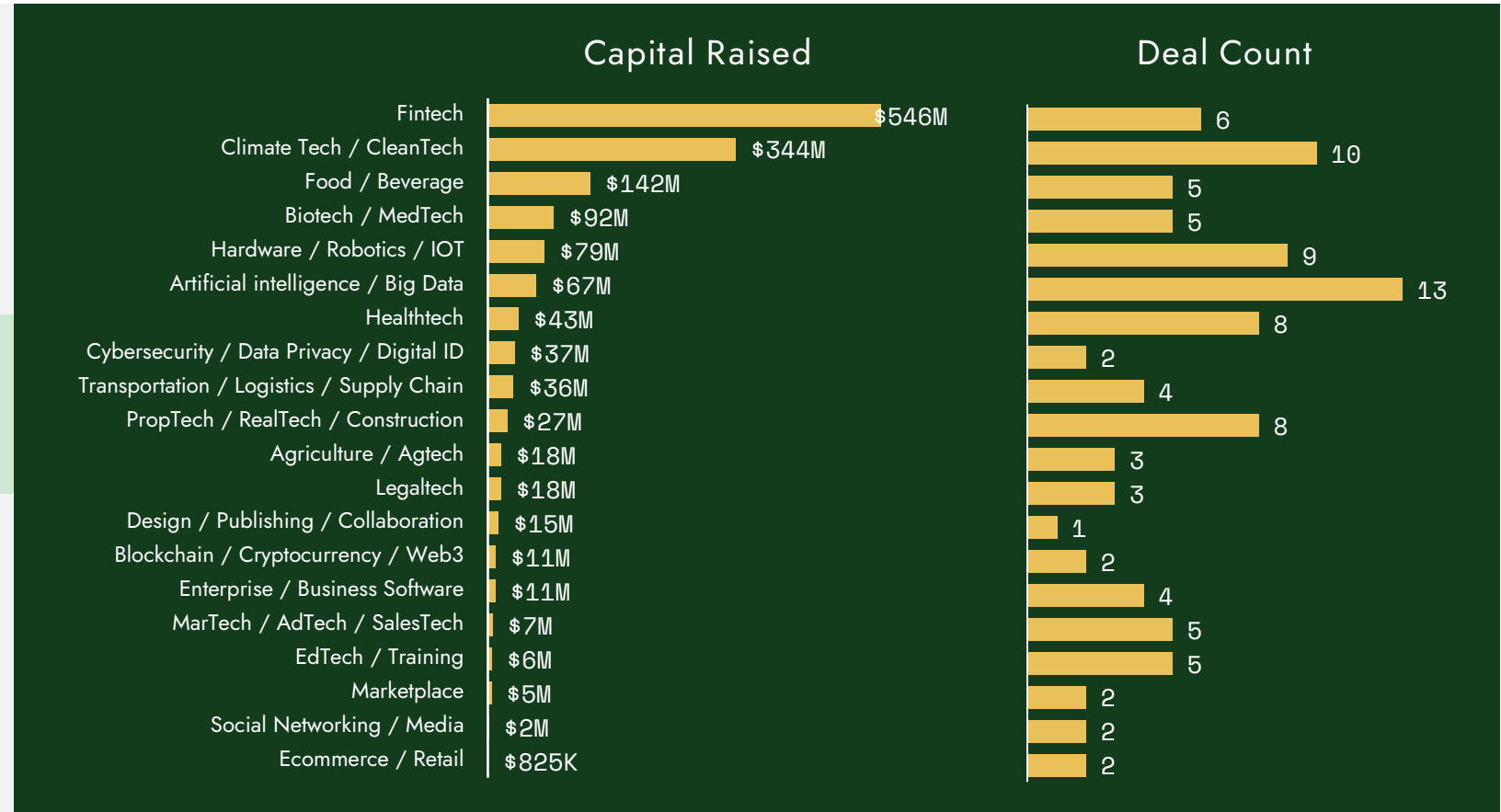
Artificial Intelligence and Big Data led in deal count, with 16 announcements from startups considered "AI-first"—those primarily focused on developing, implementing, and leveraging AI technologies to drive innovation, solve problems, and create value. Fintech topped the total funding table for the first time in over a year, driven by three \$100M+ deals from Betashares¹, CoverGenius, and Honey Insurance.

37% of funded startups in Q2 mention AI on their website.²



"We are starting to see the return of priced up rounds and believe the market is coming back but the quality bar continues to be very high."

Investor
Investor Sentiment Survey
June 2024



(1) Unconfirmed venture capital (minority) deal. If further information becomes available that shows this was a private equity (majority) deal, it will be removed from the Cut Through Venture dataset.

(2) This was calculated utilising an AI agent created using OpenAI's GPT 4.0 API. The data was spot checked for accuracy, but not all 99 company websites were validated by a human.

SECTOR FUNDING OVER TIME

Fintech, Climate Tech/CleanTech, and Biotech/Medtech remain the most consistently supported sectors by investors, maintaining their positions atop the best-funded segments list. A notable shift in Q2 for Climate Tech/CleanTech and Biotech/Medtech is that all but one of the deals announced in each segment were Series A or later. We expect that the presence of several well-funded dedicated deeptech-focused funds, along with government-backed vehicles, will ensure these segments remain funded through the cycle.

Most Highly Funded Sectors

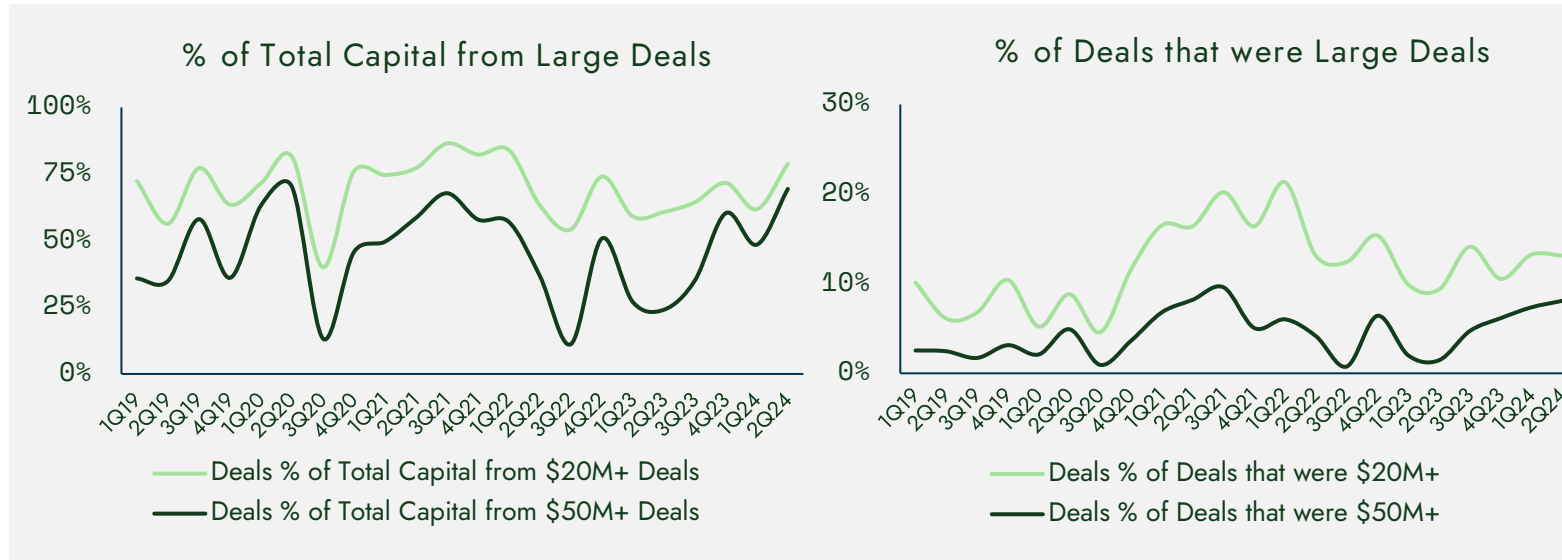
	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
1	EdTech	Fintech	Fintech	Fintech	Biotech/MedTech	Climate Tech	Enterprise/Biz Software	Cyber/Privacy/ID	Fintech
2	Ecommerce/Retail	Healthtech	Hard/Robot/IOT	Agriculture/Agtech	Healthtech	Ecommerce/Retail	Block/Crypto/Web3	Biotech/MedTech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

Most Deals by Sector

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

LARGER FUNDING ROUNDS CLIMB

The number of deals exceeding \$100M hit a level not seen since Q1 2022, with six of these mega deals announced in Q2. While undoubtedly a good sign, we know that a single quarter does not indicate a trend, so we're not calling an end to the mega-deal hiatus just yet. Deals in the \$20-50M range are still below the levels seen in 2023, while \$50-100M deals are in line with the quarterly average of 2023. A significant backlog of startups that have raised at least \$20M but have not announced a funding round since 2021 or 2022 still exists, suggesting there is a substantial platform for larger deal announcements to continue over the second half of the year.



INVESTOR INSIGHT

The companies in our portfolio that raised large rounds in 2021 and have navigated tougher conditions over the last two years without severe drops in growth are now preparing to raise again. The entry of several new later-stage crossover funds into the market, along with the local re-engagement of larger overseas VCs, gives us optimism that a successful raise on favourable terms will be achievable.

There is also a cohort of companies that have shifted to profitability but at the expense of growth. The higher-quality subset of these is actively fielding M&A enquiries.

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

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

6 \$100+ deals in Q2 2024.

Investor
Investor Sentiment Survey
June 2024

30 LARGEST DEALS OF Q2 2024

Guzman Y Gomez increased its unicorn grading to \$1.7B in April, only to retire it before the end of the quarter with a successful transition to public company life with a \$2.2B ASX float in June. Fintech was another significant winner for the quarter, accounting for a quarter of the deals over \$10M. Green energy player Hyasta raised the largest Climate Tech/CleanTech deal on record, while recycling tech startup Samsara secured the third-largest deal ever recorded in the space.

Startup	Sector	Round	Stage
Omniscient Neurotechnology	Biotech / MedTech	\$60M	Series B+
RayGen	Climate Tech / CleanTech	\$51M	Series B+
Data Zoo	Cyber / Data Privacy / Digital ID	\$35M	Series A
Ofload	Transport / Logistics / Supply Chain	\$31M	Series B+
V2 Digital	Artificial intelligence / Big Data	\$30M	Series A
Relectrify	Hardware / Robotics / IOT	\$26M	Series B+
Updoc	Healthtech	\$20M	Series B+
GPN Vaccines	Biotech / MedTech	\$18M	Series B+
Disco	Design / Publishing / Collaboration	\$15M	Series A
Liquid Instruments	Hardware / Robotics / IOT	\$15M	Unknown
Bridgit	Fintech	\$14M	Series A
AgriWebb	Agriculture / Agtech	\$11M	Series A

Startup	Sector	Round	Stage
Atticus	Legaltech	\$11M	Series A
Diraq	Hardware / Robotics / IOT	\$11M	Series A
Xefco	Hardware / Robotics / IOT	\$11M	Series A
Affinda	Artificial intelligence / Big Data	\$10M	Series A
Hometime	PropTech / RealTech / Construction	\$10M	Series A
Alta Group Global	Healthtech	\$10M	Series A
Radian Arc	Hardware / Robotics / IOT	\$9M	Series B+
Psylo	Biotech / MedTech	\$8M	Series A
Nexl	Legaltech	\$7M	Series A
Orygen	Healthtech	\$6M	Series A
Diversity Atlas	Artificial intelligence / Big Data	\$6M	Series A
PrismaStake	Blockchain / Cryptocurrency / Web3	\$6M	Seed

(1) Unconfirmed venture capital (minority) deal. If further information becomes available that shows this was a private equity (majority) deal, it will be removed from the Cut Through Venture dataset.

ECOSYSTEM INSIGHT: UPDATE ON LOCAL TECHNOLOGY M&A



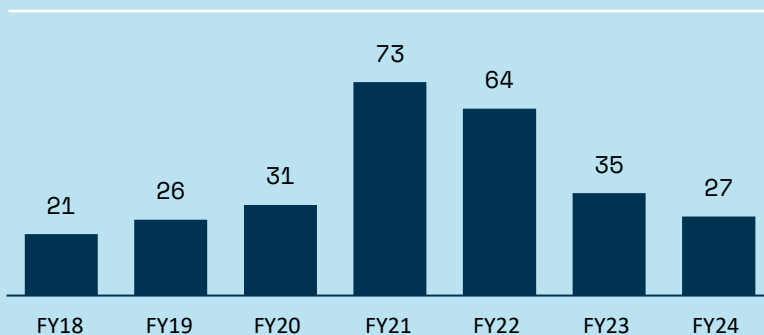
Whilst M&A activity (by number of transactions) has been declining for the fourth consecutive year, M&A transaction value has jumped in FY24 which has been driven by some large transactions. Notably, Renesas's ~A\$9.1bn acquisition of electronics design software provider Altium is both the largest ANZ tech deal of FY24, but also the largest takeover attempt of an ASX-listed company by a Japanese bidder.

Other notable public market deals include Par's acquisition of hospitality software Task Group (\$310m), Datasite's acquisition of transaction management software Ansarada (~\$236m) and Lunit's acquisition of NZ-based medical imaging provider Volpara (~\$300m).

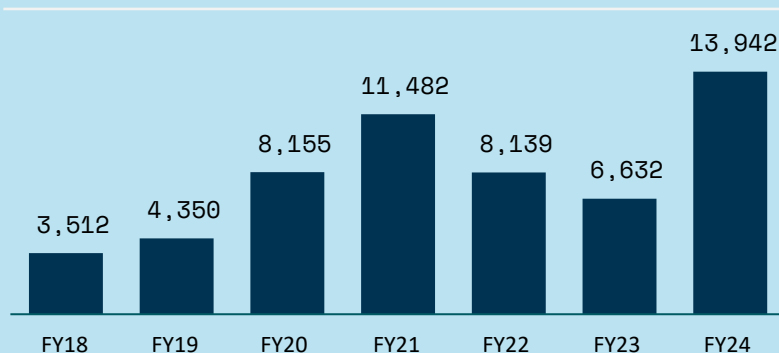
Although sponsors are sitting on significant dry powder, they are taking a cautious approach to M&A likely due to continuing macroeconomic uncertainty and more expensive debt, and for similar reasons strategic acquirers are also trading carefully despite many potential targets trading at attractive valuations.

The sharp retracement in small cap tech company valuations has seen some acquisition activity on the ASX and other international exchanges. The Rule of 40 (revenue growth + ebitda margin) has become a greater focus for investors, with earnings margins gaining more attention than revenue growth.

No. ANZ tech M&A transactions (> A\$10m)



Total value of ANZ tech M&A transactions (> A\$10m)⁽¹⁾



(1) Excludes \$39bn acquisition of Afterpay. (2) FY24 year-to-date.

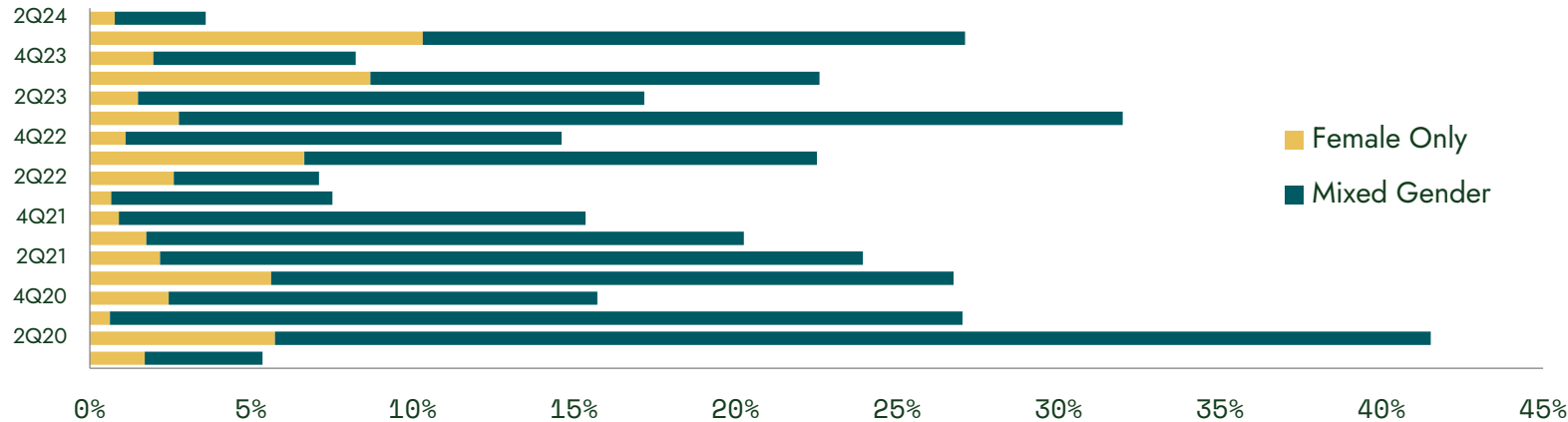
2024 SAAS M&A activity

Date	Target	Acquirer
Jan-24	PAYAPPS	AUTODESK
Jan-24	mysite	ADVENT PARTNERS
Feb-24	InfoTrust	Spirit
Feb-24	RMS	ADVENT PARTNERS
Feb-24	ANSARADA	Datasite
Feb-24	Altium	RENESAS
Feb-24	pulse Software	Springbrook
Feb-24	Till	nuvei
Mar-24	TASK	PAR
May-24	newbook	Storable
May-24	envato	shutterst.ck
Jun-24	Camms	riskconnect

FUNDING TO FEMALE FOUNDERS

After an encouraging Q1, funding to female-founded startups in Q2 slumped to its lowest level since 2019. While startups led by female or mixed-gender teams accounted for 20% of all deals recorded this quarter, the majority were at the Pre-Seed and Seed stages, with a median deal size of just \$1.4M. As we have stated previously, the share of funding received by female founders will remain low until these startups are supported with large capital rounds at Series B and beyond. In 2024, only three female-led startups have raised rounds greater than \$20M.

Percentage share of total capital raised by female founders



Q2 2024 largest rounds by female founders



\$15M

Unknown



\$6M

Series A



\$5M

Series A



\$5M

Series A



\$4M

Series A

Percentage share of total capital raised by female founders

2024 YTD

11% 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

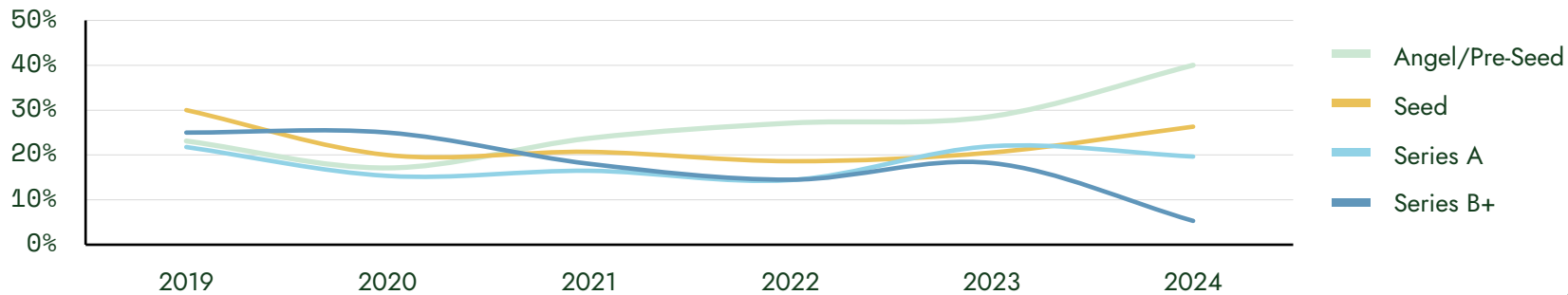
2020

25% at least one female
6% female only

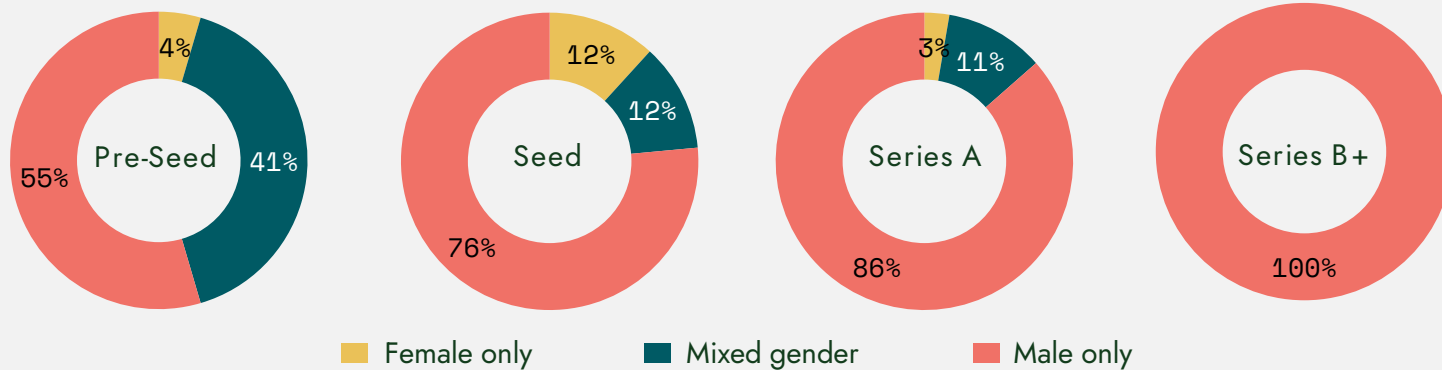
FEMALE FOUNDER DEAL PARTICIPATION

Outcomes for female founders at the Pre-Seed stage continued to show encouraging signs, hitting a record level of participation at 45% of reported deals. Representation at the Seed stage also reached a five-year high; however, later-stage participation dropped to levels not seen in over a year.

Share of deals by teams with at least one female founder



Q2 2024 share of deals by teams with at least one women founder



Median deal size by gender

2024 YTD

\$4.0M

All male

\$1.0M

Mixed gender

\$1.8M

All female

2023

\$3.0M

All male

\$1.0M

Mixed gender

\$0.7M

All female

2022

\$6.0M

All male

\$3.0M

Mixed gender

\$1.6M

All female

2021

\$5.0M

All male

\$2.9M

Mixed gender

\$2.5M

All female

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

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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, contact:

- Alan Watters | Director | Corporate Origination and Tech Sector Lead | Corporate Banking
alan.watters@hsbc.com.au
- Steve Hughes | Managing Director, Head of Wholesale Banking Australia & New Zealand
steve.hughes@hsbc.com.au

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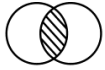
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METHODOLOGY AND DISCLOSURE

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. 108 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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