



State of Consumer Internet

A New Landscape Emerges

February 2023



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Executive Summary



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Buckle Up: How Consumer Startups Adjust and Innovate During a Macro Vibe-Shift

Stepping into 2023, a tougher market environment persists: Elevated inflation, continued interest rate hikes, rising geopolitical risk, and falling consumer sentiment dot the map. Once-pandemic-related tailwinds have now become headwinds, causing economic growth to slow, public markets to fall, capital to become scarce and consumers to scale back on spending. Yet while the current landscape remains challenging, this is precisely when disruptors are born. Today, founders have time to slow down, focus on product market fit and develop long-lasting innovations. Furthermore, recent tech industry layoffs will provide a greater availability of talent to found new companies given falling opportunity costs, fueling the next wave of innovation.

The key for consumer startups will be twofold. First, companies will need to be agile and nimble; the ability to quickly cut burn and extend cash runway will be paramount. Companies will need to become grittier and stretch every dollar. This will ultimately force them to be more efficient, better equipped for long-term growth and better prepared to meet the demands of exit markets. Second, startups will need to capitalize on shifting consumer trends. For example, consumers increasingly want a more personalized experience, yet they expect more privacy (look no further than the demise of cookies and cross-app

tracking). The ongoing proliferation of gaming has led to greater demand for multiplatform and on-demand games. Core values are continuing to shift amongst consumers, especially as the demographic of the modern-day consumer changes as younger generations make up a greater piece of the pie. Factors such as sustainability and environmental impact have notched up the priority list.

These are just some of the challenges — and opportunities — staring down consumer startups. Only companies with the best technology, ideas and go-to-market strategy will clear the hurdles. Luckily, there is no shortage of innovative ideas. Throughout this report, we highlight a few examples of niches disrupting the consumer space, from reverse logistics companies specializing in branded recommerce to emerging subsectors within commerce enablement.

With careful navigation, consumer startups can take advantage of leaner times and shifting consumer preferences to build better businesses. This is the moment when startups can capitalize on the opportunity presented and turn themselves from market players to a market leaders. We believe in these companies, and we believe in the innovation economy.

2023 and Beyond



Brick and Mortar Revival

Consumers are back out in the physical world, but the commercial spaces of old need reinventing, given reduced downtown office footprints and pandemic closures. This, coupled with the need to cut through increasingly noisy online channels, poses an opportunity for companies looking to reach consumers the analog way. Offering customers an experience increases loyalty.



Entrepreneur Enablement

The reshuffling of the workforce coupled with inflationary pressures places greater importance on the 'side hustle,' and on tools that can help individual entrepreneurs and creators efficiently monetize their output and products both in physical and digital worlds.



A Prescription for Subscriptions

More companies are leaning into paid subscriptions as a predictable source of revenue. Following Amazon's Prime membership model, Walmart, Best Buy and Barnes & Noble now offer paid annual memberships. We expect others to follow suit. The model resonates with investors and companies who favor the reliability of subscription revenue and the benefits it can have on retention.



CAC on Track

With profitability in the crosshairs, consumer tech companies are prioritizing acquiring fewer, higher-quality customers. Customer acquisition costs (CAC) are under scrutiny as investors want the biggest bang for their buck. This has led to a drawback in spending with around 60% of consumer tech companies decreasing their marketing spend YoY as of Q4 2022.¹



Vertical Communities

As social media migrates toward content for entertainment, users are seeking new channels for connection based on shared interests. It's a natural extension that these more curated spaces would invite commerce opportunities. We expect brands and creators to monetize these emerging social spaces. After all, more engaged users are more engaged customers.



M&A Mania

Valuations are beginning to reset after reaching high marks in 2021. As the backlog of late-stage companies builds amid a closed IPO market, pressure may grow for founders to achieve an exit. With some public, and more scaled private companies flush with cash from the recent bull market, we expect strategic acquisitions to spike in 2023. The question is at what valuation? It may not be pretty.



Recommerce Rising

More brands will likely reclaim their secondhand supply chain. Third-party logistics providers are enabling any brand to establish and or white-label a resale program. This offers brands a new source of revenue and brand protection. Consumers can both save money and shop more sustainably.



Streaming Gets In The Game

Gaming with streaming and subscription services will likely continue to grow more robust thanks to an increase in games that are available cross-platform and improved internet speeds. There may always be a segment of gamers that prefer the performance of PC and consoles, but the accessibility streaming offers continues to add value for gamers.



AI for E-commerce

Artificial Intelligence (AI) took a leap forward in the last six months. E-commerce presents an ideal space for these new technologies to take root. Writing tasks such as ad copy, product descriptions, and marketing emails can be sped up. The tech could also improve customer support and enable more personalized marketing and shopping. Even reports about, say, Consumer Internet, could be written with AI. Was this one? We'll never tell.²



Macro:

The Slowdown Speeds Up



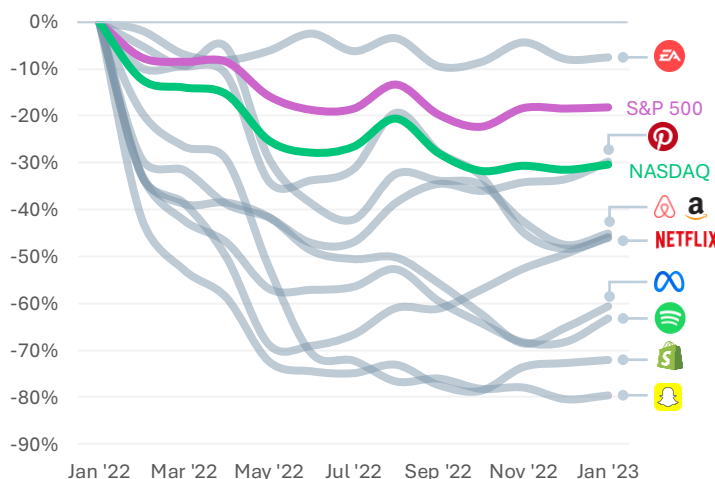
When Going Through a Downturn, Keep Going

For all its intensity, the current economic slowdown has failed to deliver widespread damage (yet). Yes, economic growth has slowed and public markets have been pummeled, especially tech stocks. However, unlike the GFC, which was marred by sweeping job losses, foreclosures and bankruptcies, the current downturn has largely been absorbed by shareholders. Profits from the pandemic-fueled bull run have largely shielded the broader economy, as fundamentals like employment and wage growth remain positive. Yet the prevailing outlook is getting more negative. A January poll by The Wall Street Journal found that 61% of economists expect the US to enter a recession in the next 12 months, up from 18% a year ago.

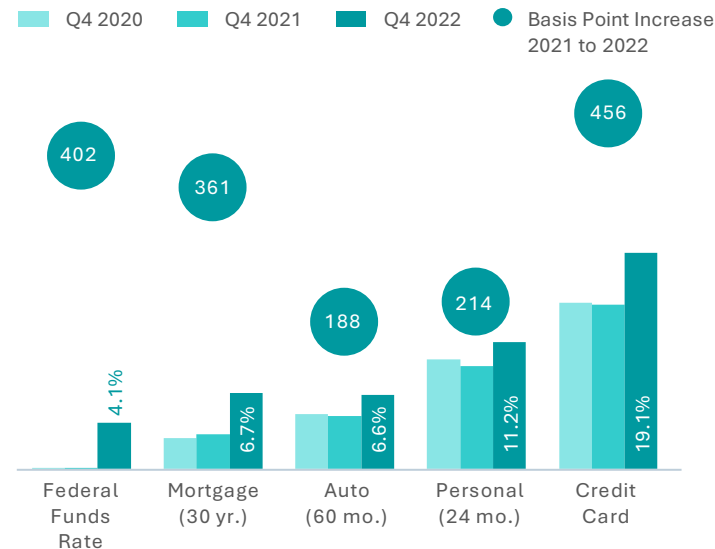
Consumer tech has not been immune to the impacts of the downturn. A reversal of pandemic trends like online shopping and remote work caught companies flat-footed last year. In June, Shopify laid off 1,000 employees, roughly 10% of its workforce. CEO Tobias Lütke said the company overestimated the permanence of online shopping shifts in growing too rapidly. "It's now clear that bet didn't pay off," Mr. Lütke said. Other big consumer tech companies including Meta, Alphabet, Twitter and Snap followed with layoffs in H2 2022, in some cases unwinding hiring sprees from 2021.

The pullback comes as high inflation and rising interest rates are dampening consumer spending. Home and auto sales near decade lows in 2022. Household savings rates fell to 3.4%, down from 7.5% a year ago, and consumer confidence is hovering near the record low reached in June 2022. While inflation is finally abating, a stronger than expected January jobs report may convince the Federal Reserve to keep raising rates. However, it's not all doom and gloom. Consumers are better prepared to weather a recession today than prior to past downturns. Households offloaded debt¹ and saved² during the pandemic, and employment remains high — factors that could buoy a recovery.

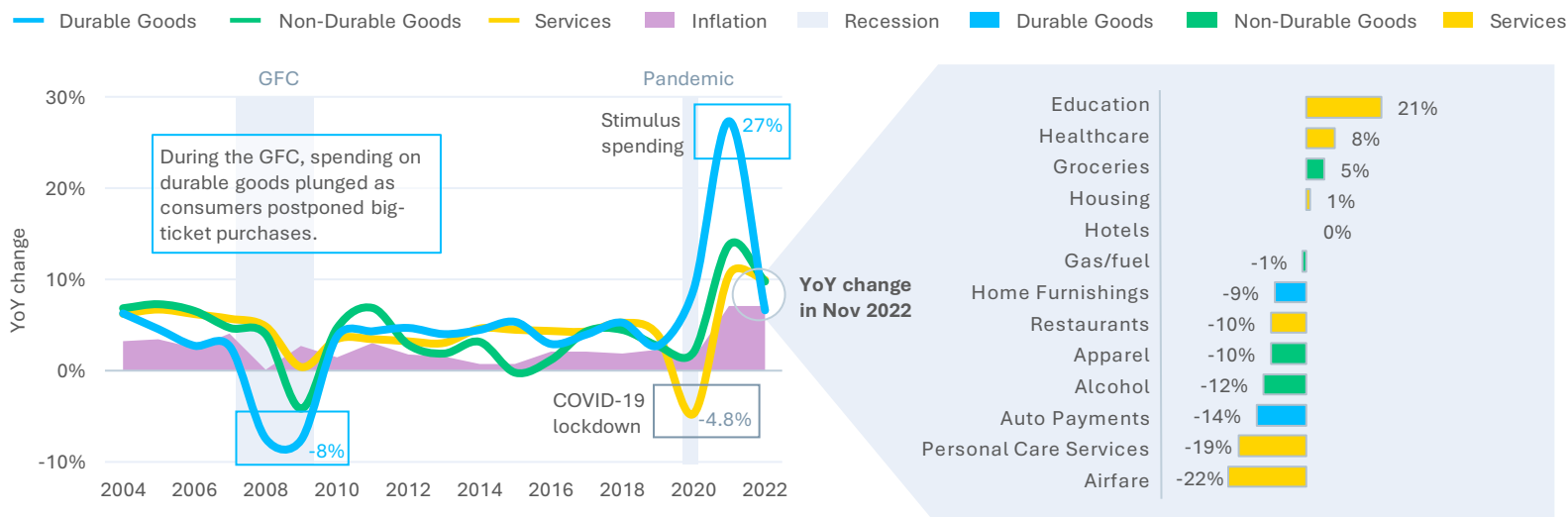
Select Consumer Tech Stock Returns³



Average US Interest Rates by Type⁴



Inflation and US Personal Expenditures by Product Type⁵



Notes: 1) Debt payments averaged 9.7% of disposable income in Q3 2022 down from 13.2% in Q4 2007. 2) Personal savings averaged 14.3% of disposable income in 2020-21, up from 3.5% in 2006-07. 3) Average monthly returns indexed to the settlement price on Jan 3, 2022. 4) Rates and year-over-year (YoY) change based on the December (or latest) reading for each year. Federal Funds Rate is the default lending rate to banks. 5) Spending and inflation data expressed as average annual percentage change. Inflation is the YoY change in the Consumer Price Index (CPI). Source: St. Louis Fed, Morning Consult, Bureau of Economic Analysis, S&P Capital IQ and SVB analysis.

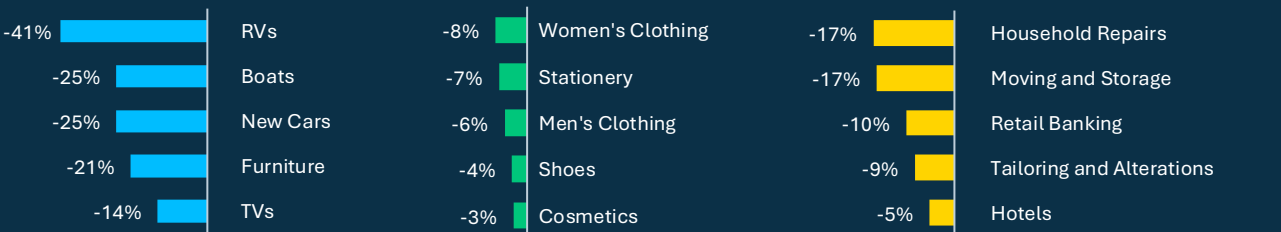
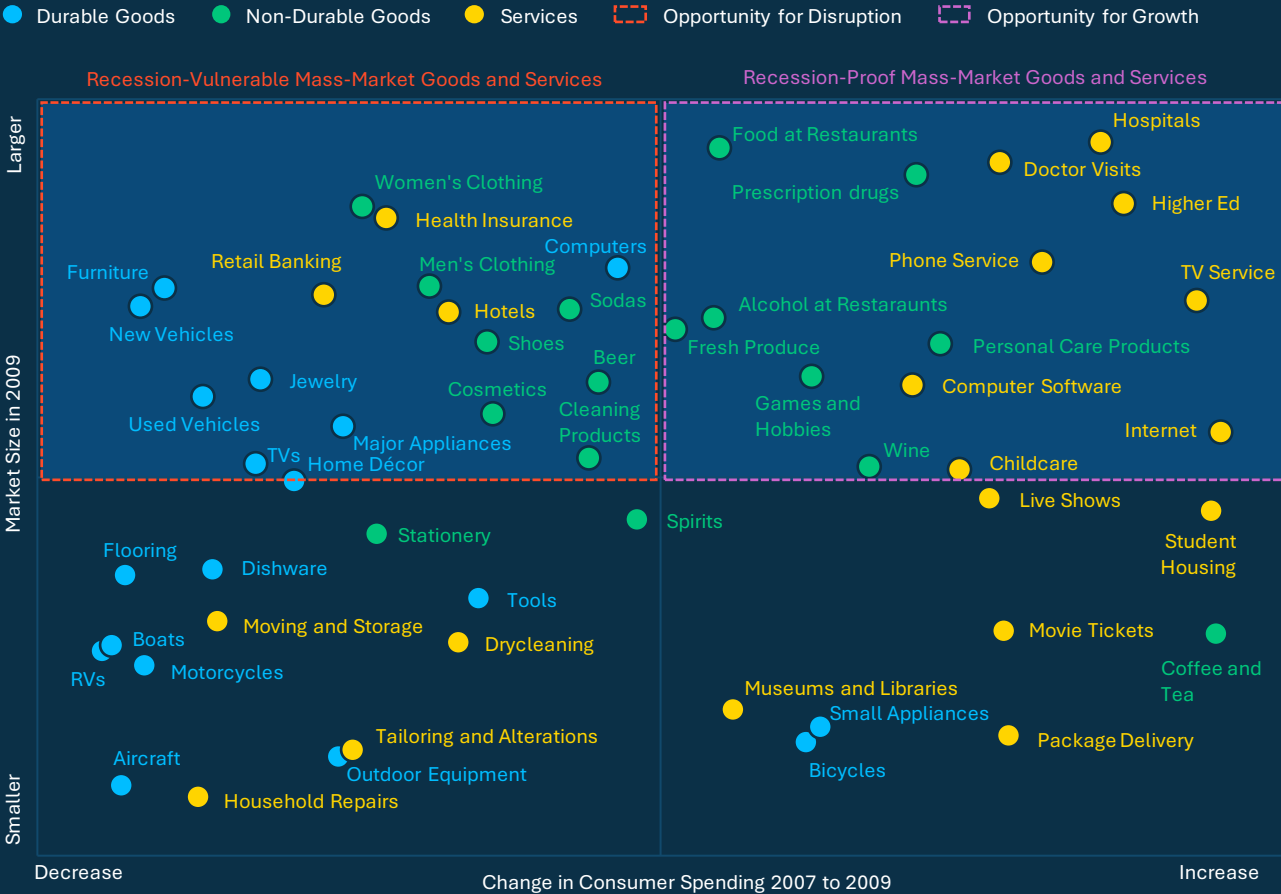
Your Luxury Is My Opportunity

Yacht dealers may be in for a rough year. When times are tough, luxuries are the first to go. During the GFC, Americans bought fewer RVs, motorcycles, TVs, furniture, and even new carpet. If it could wait, it did. New vehicles, used vehicles, jewelry, clothing, vacations — households slashed big-ticket purchases across the board. For tech founders, this shift in consumer behavior presented an opportunity. While large incumbents struggle to adapt quickly to change, startups can create strong footholds in the margins of a downturn.

In 2008, Brian Chesky and his roommates recognized that travelers were looking for an affordable alternative to hotel rooms. They started by renting an air mattress in their San Francisco apartment. Today, Airbnb is one of many successful tech startups to emerge from the GFC. Downturns can not only be a great foundation from which new companies are spawned, but they can also serve as accelerators for existing startups. Shopify, for example, was a two-year-old company struggling to scale in 2008. The surge in small businesses that arose from side hustles during the recession gave Shopify a critical boost.

Consumer companies can also lean into growth trends during downturns as not every spending category declines. Consumers may wait on big-ticket items, but splurge on smaller pleasures like coffee, restaurants and movies. Uber rode this wave by offering affordable transportation at a time when auto sales were down. Groupon did the same with discounts on restaurants and entertainment. Essential services like healthcare and education are resilient when the economy is stressed. Higher education is boosted when unemployed workers go back to school or seek upskilling programs. If the US does enter a recession in the near future, it's probable that a new round of disruptive consumer tech companies will be seeded. That said, not all market downturns are the same. Savings from the pandemic have infused households with more cash than 2008. It's reasonable to expect that spending cuts may not be as pronounced this time around.

Index of Select US Personal Expenditures During the Global Financial Crisis¹



Notable Consumer Tech Companies Formed: 2007-09²

Finance and Payments
stripe Square credit karma

Transportation
Uber

Home Improvement
Thumbtack houzz

Retail and eCommerce
Groupon SHEIN

Hotels and Travel
airbnb coupa

Healthcare and Fitness
one medical fitbit

EdTech
udemy grammarly



Consumer Themes:

Disruptors Emerge in the Face of Change



Change the Channel? Marketing's Remix

Third-party cookies have crumbled. What started with an iOS privacy update in May 2021 has fundamentally changed how consumer companies market their products online. Third-party advertisers are now limited in what they can see about iPhone users' activity. Alphabet plans to implement similar restrictions to Android users next year. The new restrictions impact the advertisers' ability to target ads as well as measure performance and attribution.

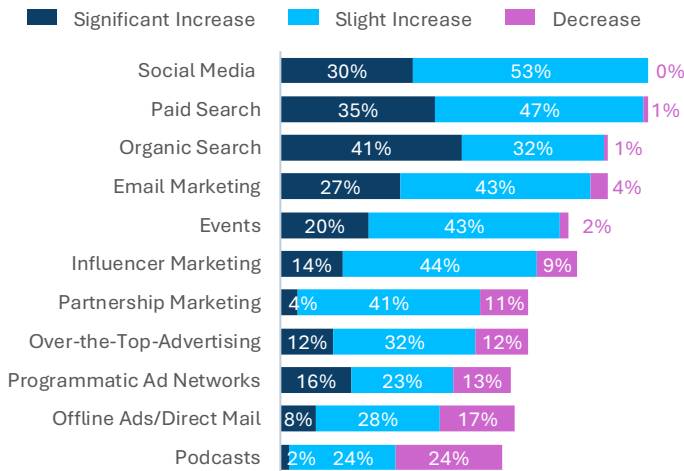
Subsequently, paid social and search have taken a hit, with many brands citing increased costs for less effective targeting as a result. But these two strategies aren't out of the ring just yet. In a 2022 survey of Fortune 500 marketing leaders, 53% and 47% expect to slightly increase social media and paid search, respectively, despite the shift against cookies.¹

As costs comes under more scrutiny, companies are prioritizing acquiring fewer, higher-quality customers. This shift has accompanied a general pullback in marketing spend. Among consumer tech companies, nearly 60% are decreasing their marketing spend YoY as of Q4 2022 — up from an average 39% in Q1 2022. Looking ahead, tensions between brands wanting to acquire customers and consumers wanting privacy can be partly mediated by offering value in exchange for data. Brands can offer discounts for friend referrals or rewards through a loyalty program. These techniques help brands capture zero-party data — data a customer intentionally shares.

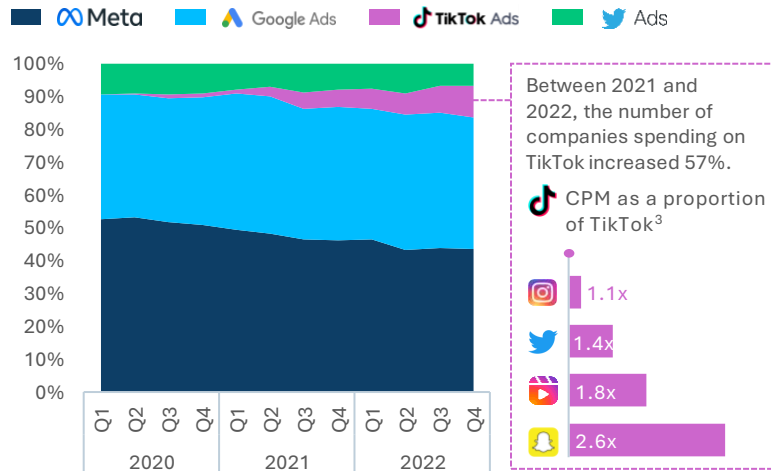
When it comes to reaching consumers, all eyes are on TikTok, literally. The service became the most downloaded app in the world in 2022. TikTok users spend twice as much time per day on the app as they do on Facebook and Instagram, according to Sensor Tower. Since launching their ad platform in 2020, more companies have turned to TikTok — despite a number of institutions seeking to ban it. Based on SVB proprietary data, in 2022, the number of consumer tech companies spending on TikTok advertising increased 57% YoY, while Twitter, Alphabet and Facebook saw slight declines.



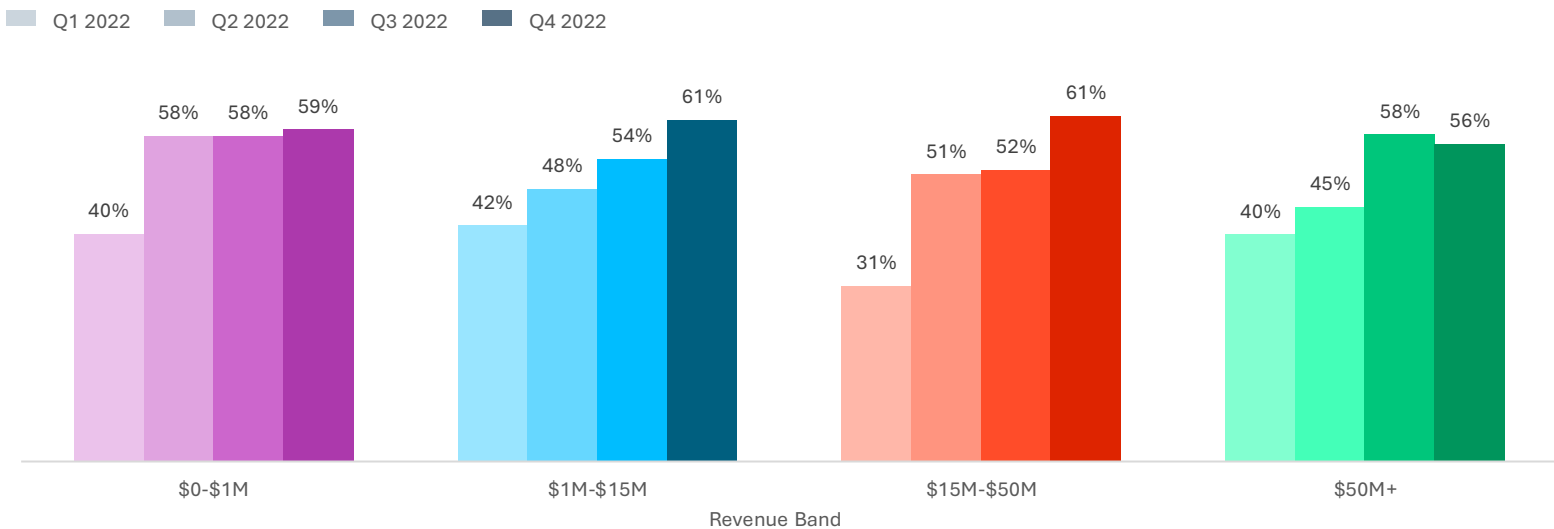
Expected Two-Year Change in Marketing Budget Due to Shift Against Cookies¹



Share of Consumer Tech Companies Utilizing Select Ad Platforms²



Share of US Consumer Tech Companies with Decreasing Marketing Spend YoY⁴



Notes: 1) Based on a 2022 survey of more than 175 Fortune 500 marketing leaders. 2) Share of consumer tech companies, as defined by SVB proprietary taxonomy, utilizing select ad platforms. 3) CPM = Cost Per Thousand Impressions. 4) Companies with at least \$100 of marketing spend per quarter. Revenue buckets are based on 2022 annualized revenue. Source: Loyalty Research/Rep Data, Vayner Media, Vogue Business, Sensor Tower, Financial Times, SVB proprietary data and SVB analysis.

Commerce Enablement Delivers

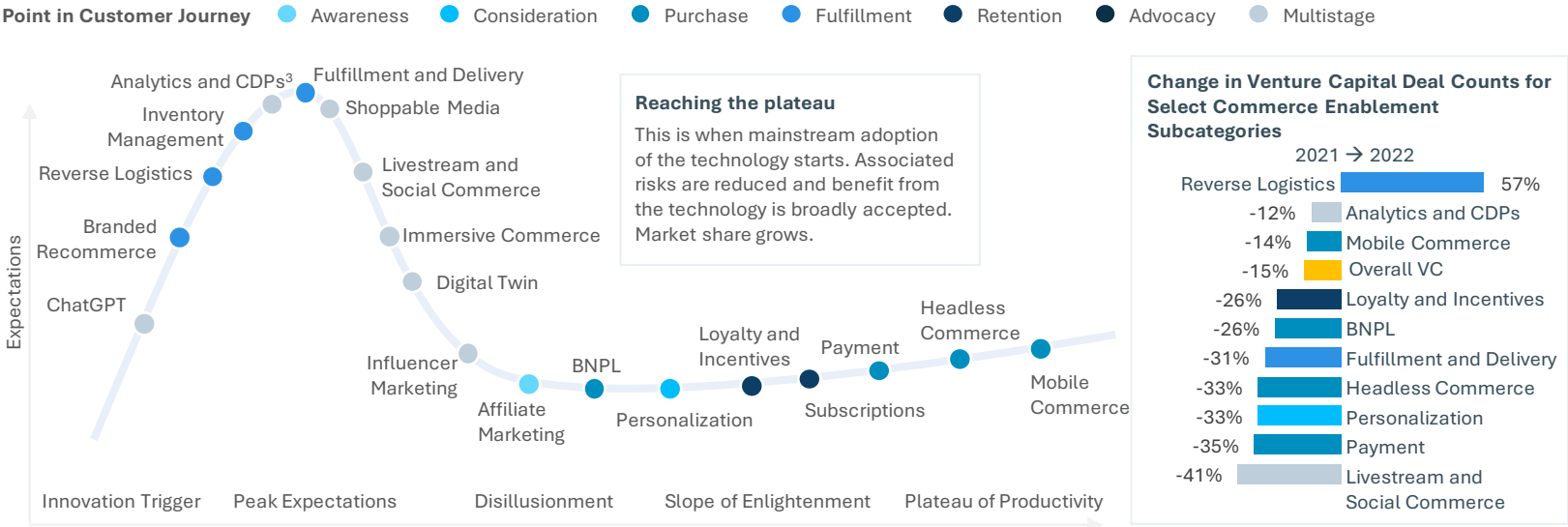
When supply chains were at a standstill and demand for goods surged during the pandemic, commerce enablement companies seemed to have the Midas touch. From mobile commerce to fulfillment and delivery, enablement companies helping retailers connect to customers on any point along the customer journey were in high demand. Fast-forward to now and the landscape has changed.

Commerce enablement companies are feeling the strain of weakening consumer spending. While these companies are mainly business to business (B2B) and are therefore shielded from some volatility, they are feeling the crunch from cost-cutting as clients scrutinize every line item, down to individual software contracts. Given these headwinds, and the broader market slowdown, VC deals for select commerce enablement subsectors declined in 2022, with reverse logistics as one of the few bright spots. Areas such as livestreaming, headless commerce and fulfillment and delivery saw steep declines amid the drawback in consumer spending. However, promising technology is creating optimism for the future.

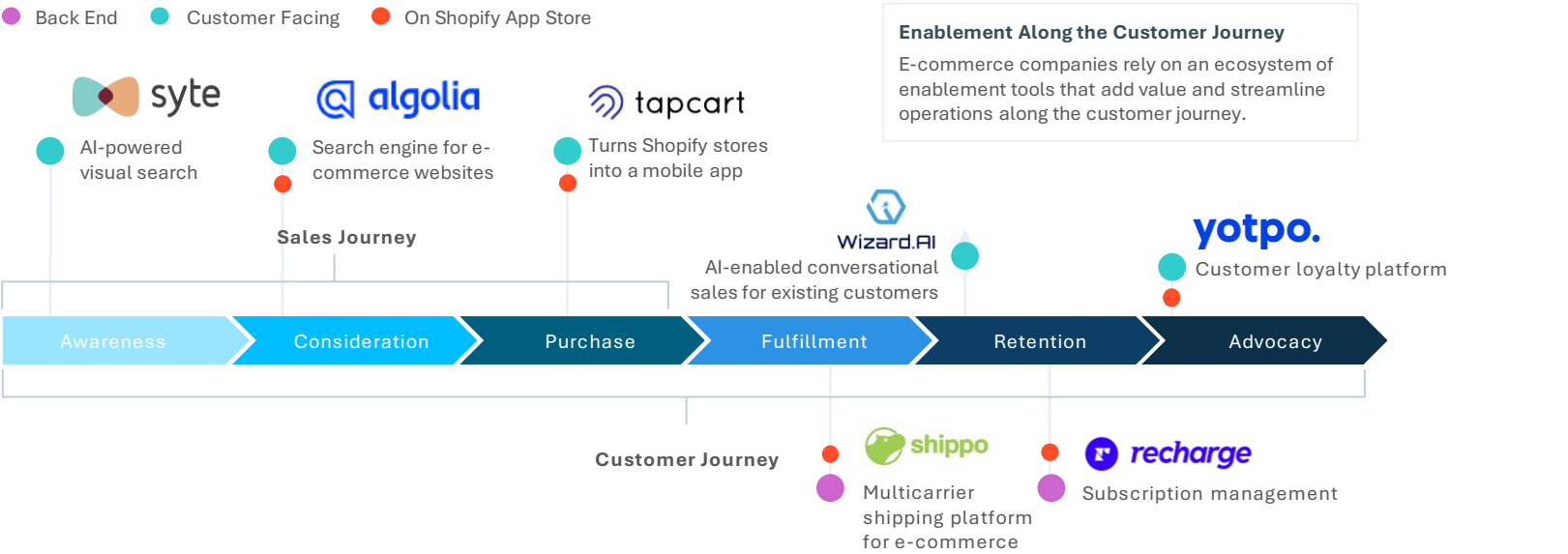
ChatGPT¹ took the internet by storm in Q4 2022. OpenAI's public chatbot released a floodgate of enthusiasm and speculation for how generative AI could disrupt commerce enablement. This includes everything from writing descriptions and SEO titles, to customer support, to ad copy. Emphasis was also placed in areas such as inventory management, as many retailers misjudged consumer demand in Q3 2022. This was evident by the adjusted apparel sales-to-inventory spread, which flipped from positive 16% in Q3 2021 to negative 16% in Q3 2022, indicating sales are less than inventory levels.² To help its customers better manage inventory complexity, Shopify sought to bolster its inventory management tools through the \$2.1B acquisition of Deliverr. The deal boosts Shopify's logistics capabilities — adding predictive features and combining multiple sales channels together.



Commerce Enablement Hype Curve



Commerce Enablement Select Examples



Circular Economy Threads the Needle

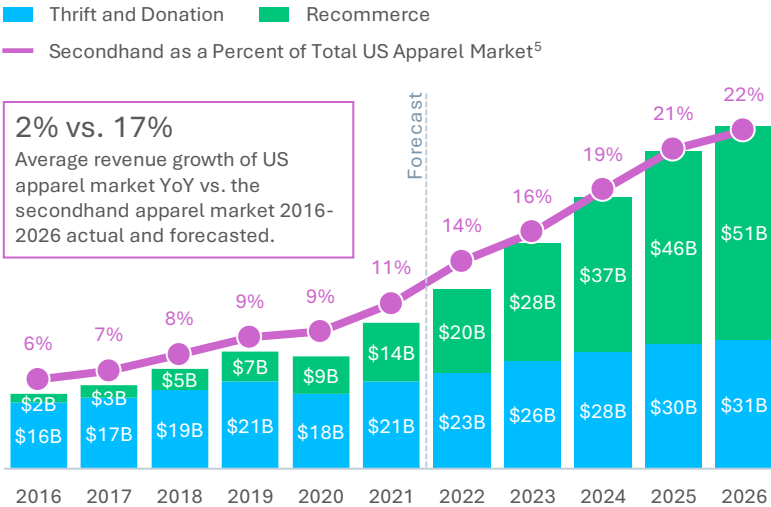
The US apparel industry has become a hotspot for circular transformation. On average, US shoppers purchase 68 garments¹ per year and discard an item after wearing it only seven times.² As a result of this consumption pattern, and the increasing public concern over the environmental impact of apparel waste, the demand for secondhand clothing has surged in the last decade. Secondhand clothing sales grew from 6% of total apparel sales in 2016 to 11% in 2021 and is expected to reach 22% by 2026. Corporations are moving to capitalize on this shift in consumer preferences by utilizing secondhand markets of their own to capture resale revenue as well as control the narrative surrounding their brand.

There have been two distinct waves of tech-enabled secondhand apparel. The first wave centered around peer-to-peer marketplaces (P2P). After the GFC, consumers wanted to monetize their closets, and save money while having a seamless e-commerce experience.³ Two notable resale marketplaces, Poshmark and thredUP, raised a combined \$400M in venture funding. Both ended up going public at valuations over \$1B.

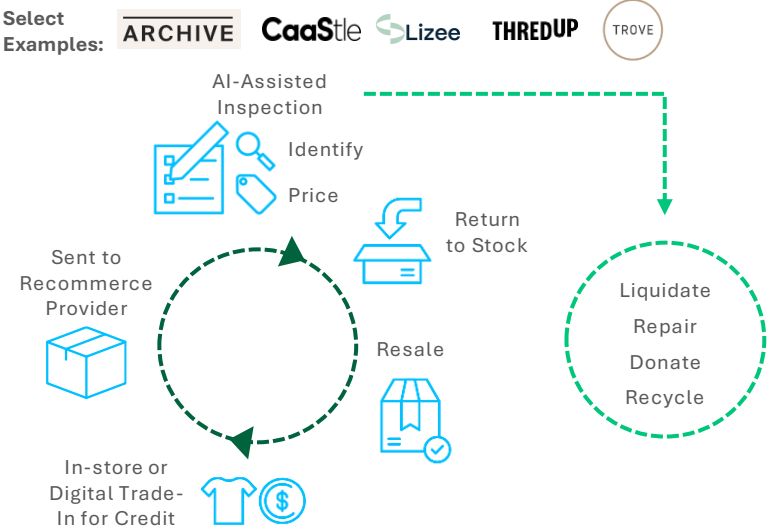
The second wave is centered around branded recommerce. By controlling their own secondhand markets, brands get double benefit of brand protection and new streams of revenue with minimal additional costs. Consumers are looking to be more sustainable, but also, in an inflationary environment, remain cost-conscious. This is possible thanks to third-party reverse logistics providers specialized in recommerce. AI can be used to identify a garment and assign it attributes, set a price using those garment's attributes and available resale data, and relist an item for sales with minimal labor. Queue another use case for generative AI.



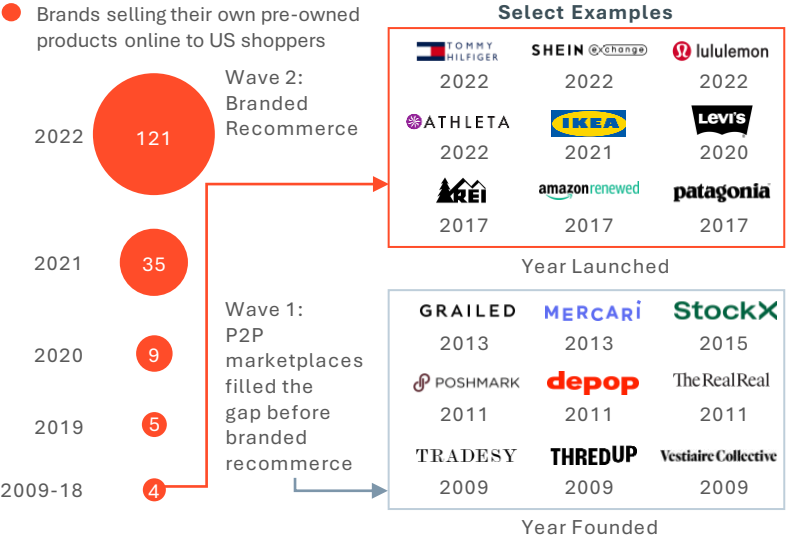
US Secondhand Apparel Market Revenue⁴



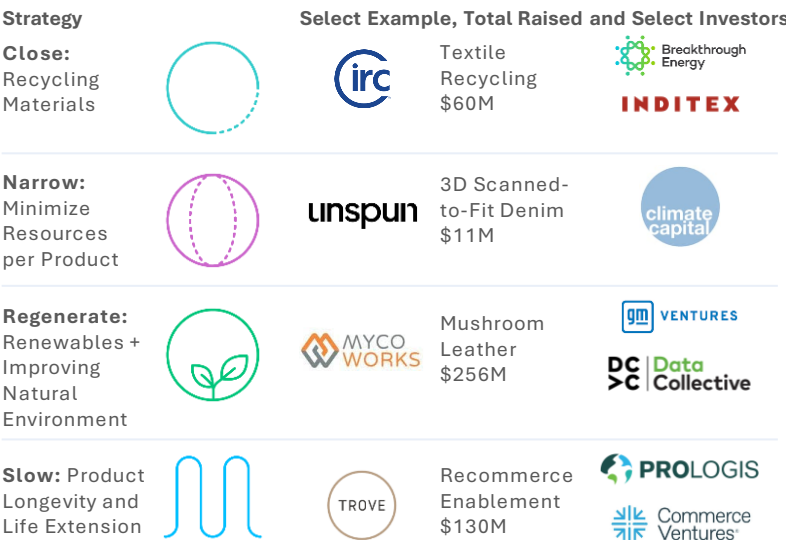
Reverse Logistics Power Recommerce



Brands Adopting Recommerce⁶



Startups Practicing Circular Strategies⁷



Notes: 1) Rent the Runway via Wall Street Journal. 2) According to a 2015 UK Barnardo's survey. 3) The New York Times. 4) thredUP. 5) Statista. 6) Publicly available information on brands selling their own pre-owned products online to US shoppers. 7) Konietzko et al. [2020].
Source: The Circularity Gap Report, Global Data, thredUP Recommerce 100, Statista, The Wall Street Journal, Barnardo's, and SVB analysis.

Gaming: All GaaS No Brakes

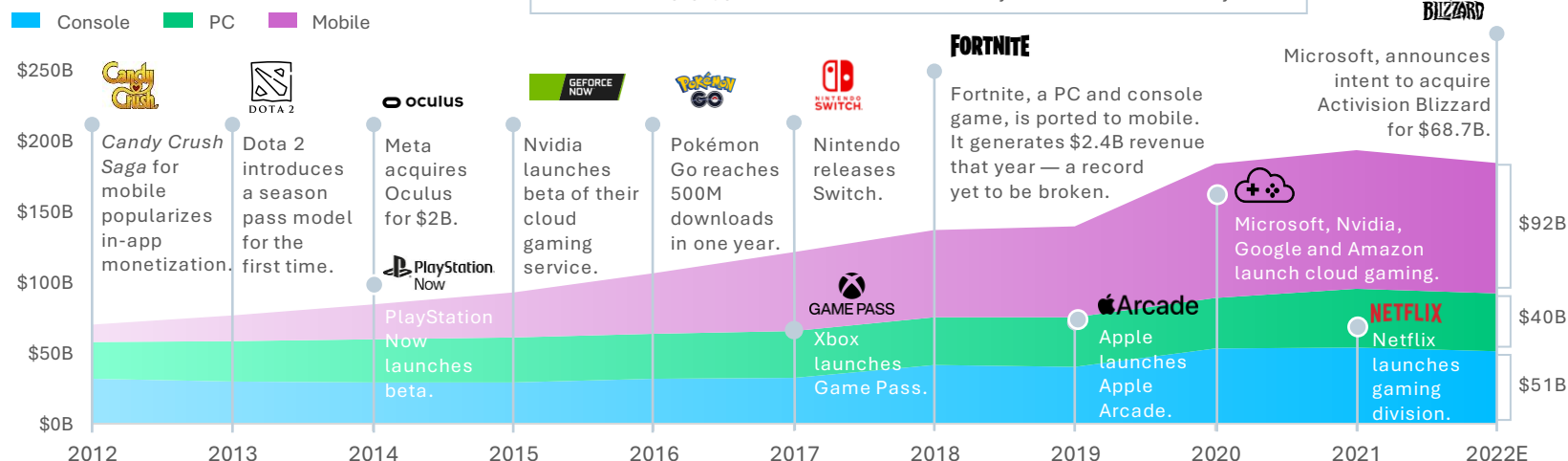
The gaming industry has evolved from one-time purchases of cartridges and consoles to Games-as-a-Service (GaaS), an evolving product supported by subscriptions and in-game purchases. Revenue growth and access to an increasing userbase attracted big tech companies, who've acquired studios for their intellectual property and built streaming platforms — Amazon Luna, Nvidia GeForce NOW, Netflix Games, and Xbox Cloud (Microsoft). Microsoft's decision to pursue Activision Blizzard — the largest gaming company by market capitalization — is predicated on expanding their library of titles and building a stronger mobile games footprint. Despite the optimism, some ambitious bets have struggled. Alphabet shut down its cloud gaming service Stadia in January, and Meta lost \$13.7B on its Reality Labs division in 2022.

Mobile games revenue has been larger than PC and console combined since 2017. Last year, about half of revenue for mobile games came from ads, with the rest coming from in-app purchases (IAP).¹ Fortnite entered the mobile space in 2018 but was kicked off Apple's app store in 2020 for circumventing Apple's 30% cut on IAPs. This has fueled debate over the power third-party app stores have over developers. In February 2023, the Department of Commerce issued a call for policy change.

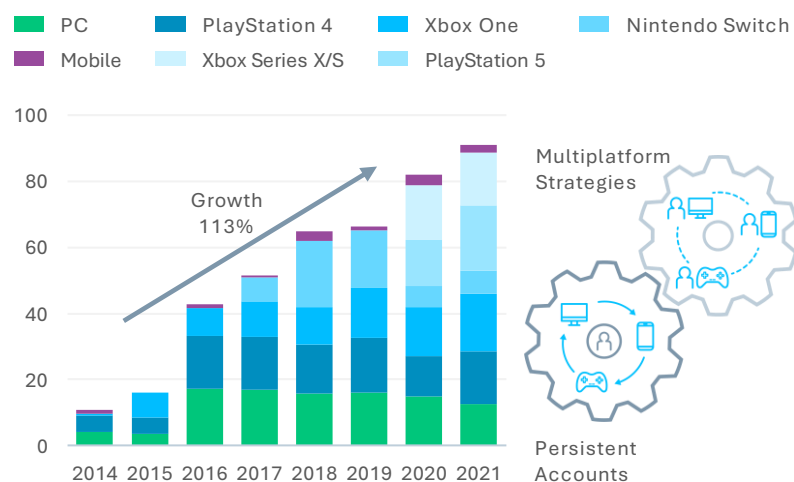
Gaming is viewed as a use case for Web3 and crypto as gamers were already familiar with buying and selling digital goods. In-game economies have long existed — Eve Online, Second Life, Fortnite, Roblox — without notable crypto or Web3 connections. When crypto exploded in popularity in 2020, there was a rise in play-to-earn games where players could win crypto or non-fungible tokens (NFTs). As the those lost value, payers logged out. Web3's role in gaming is still being defined — new blockchain based games studios are still popping up — but immersive in-game economies are here to stay.



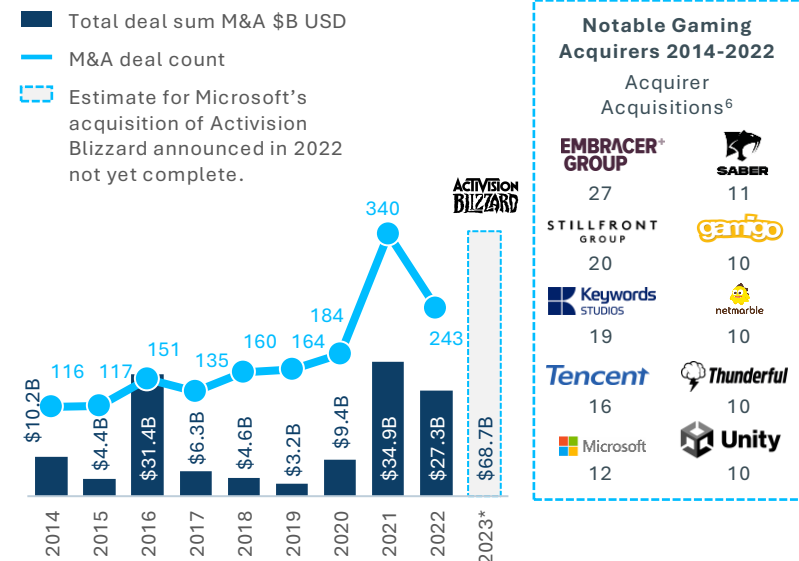
Global Gaming Revenue per Device and Timeline²



Multiplatform⁵ Games Released by Year per Platform



Global Gaming M&A



Notes: 1) Percentage of daily players who returned each month, Unity Gaming Report 2022. 2) YoY numbers aggregated from NewZoo. 3) Global Theatrical and Home/Mobile Entertainment Market. 4) IFPI Global Music Report. 5) Unity Gaming Report 2022. 6) Based on publicly disclosed completed acquisitions for companies within the PitchBook vertical "Gaming."

Source: NewZoo, The Motion Picture Association, PitchBook, Konvoy VC, IFPI, Unity and SVB analysis.



Capital:

Startups Shift Focus as Exit
Plans Get Put on Hold



Back to Earth: Valuations Reset

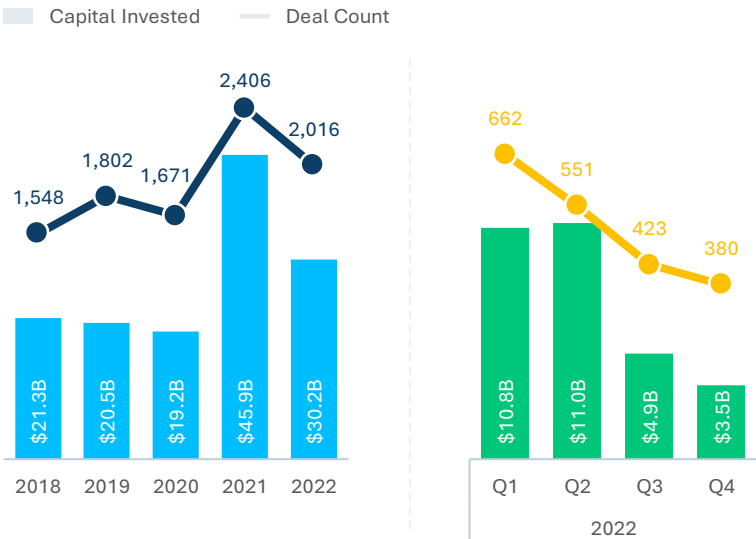
The decline in public markets, rising interest rates, and reversal of pandemic-fueled consumer trends made 2022 a difficult fundraising year for many consumer tech founders. Capital invested fell from 2021 highs across most subsectors, with commerce enablement and gaming and esports being the only exceptions to the rule. Even these sectors hit a wall in the back half of the year, as the prolonged slowdown caused investors to pump the brakes and shift to earlier, less capital-intensive deals.

The more difficult funding environment caused valuations to rebase. Later-stage deals, which are more susceptible to public market valuation movements, were more impacted by the valuation adjustments. Valuations for these later-stage deals peaked at 2.5x their pre-COVID-19 levels and have fallen back to their 2020 levels. Further up the funding funnel, seed-stage deals plateaued but remain elevated. Investors understand earlier-stage companies have years ahead before a potential exit, and VCs have shifted preference to these earlier-stage deals as an alternative to risk at the later-stage.

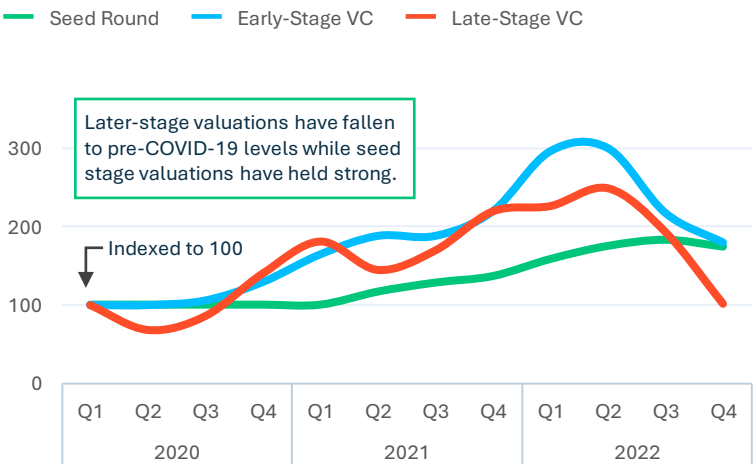
This thesis is confirmed when analyzing valuation step-ups between rounds. In 2022, Series A companies increased their valuations by a median of 4.3x their seed round valuations, a slight dip from the 2021 step-up but still well ahead of the 2020 level, an indication demand still exists for VC deals that are least exposed to public market fluctuations. Series B to Series C step-ups, on the other hand, saw a deceleration in the step-up amount, falling back to 2020 levels. For example, a Series B company valued at \$100M would have been priced for a Series C deal at \$360M according to 2021's median step-up. The same company doing the same deal would have a \$250M valuation in 2022.



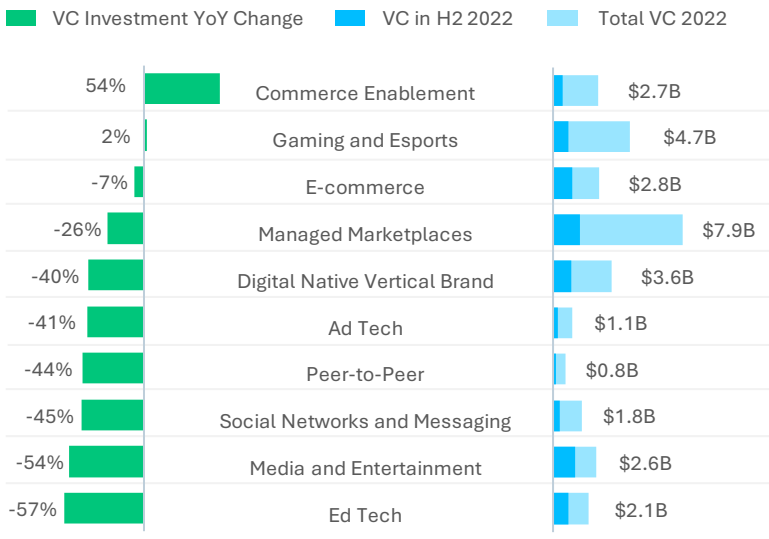
US VC Investment in Consumer Tech¹



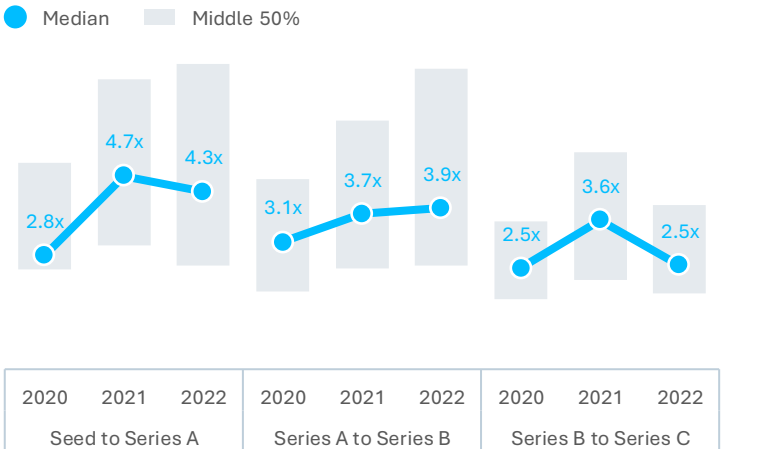
Index of 180-Day Trailing Median Valuation for Consumer Tech Companies



US VC Investment by Subsector²



Median Valuation Step-Ups for Consumer Tech Companies by Round³



Notes: 1) Data as of 2/8/2023. VC defined as all series, stages and rounds for US-headquartered consumer companies. Consumer tech companies defined using SVB proprietary taxonomy. 2) Data as of 2/2/2023. Consumer tech subsectors based on SVB proprietary taxonomy. 3) Valuation step-ups are the median change in valuation for companies going up a round. Does not include add-on or extension rounds. Source: PitchBook, SVB proprietary data and SVB analysis.

Live To Raise Another Day

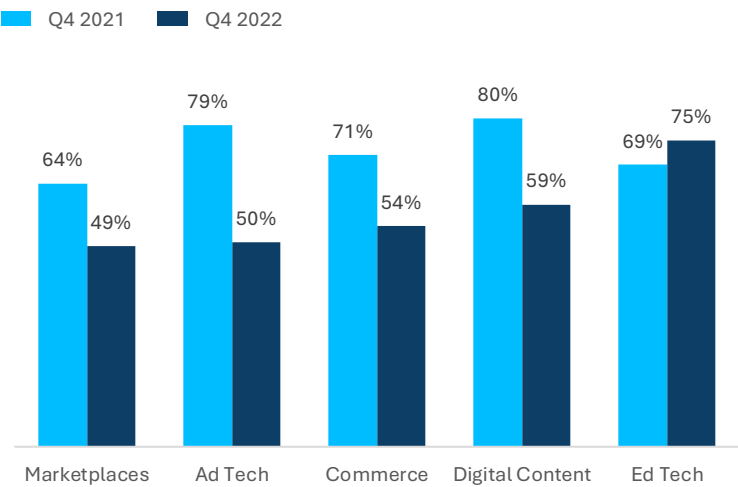
The simplest way to win market share in a downturn is to survive the downturn. As the economic slowdown persists, consumer tech founders are doing what they can to conserve funds and extend cash runway. This includes pivoting both sides of the financial equation by cutting costs and maximizing revenue. However, falling consumer sentiment and decreased consumer spending is creating headwinds. Revenue is down across most consumer subsectors, with 61% of VC-backed consumer companies posting quarter-over-quarter (QoQ) revenue gains in Q4 2022, down from 75% last year.

Consumer companies are scrambling to add new income streams. Netflix, for example, has added ad-supported plans for the first time and is cracking down on password-sharing. The changes helped reverse a trend of declining subscribers. Subscription models are becoming more common as companies offer premium services to entice paid users. Twitter, under Elon Musk, has leaned into this strategy with a paid Twitter Blue model offering special features to subscribers.

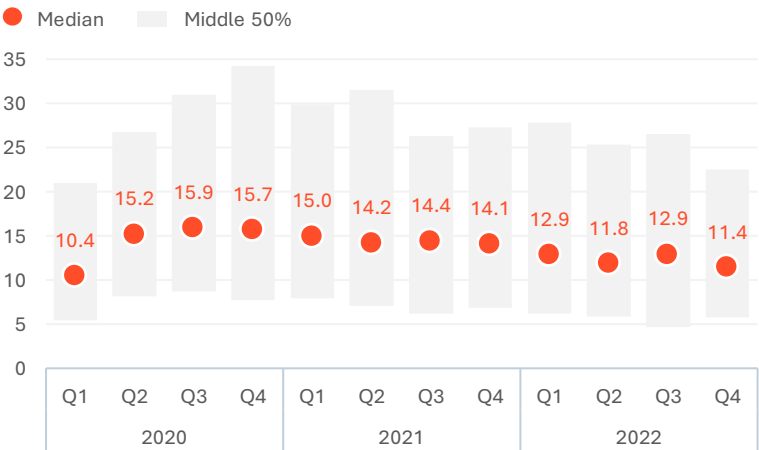
To compensate for the softer revenue, companies are cutting spend to the greatest degree since the COVID-19 pandemic began. The bulk of cuts are coming from areas like talent. Look no further than Twitter. Since buying the company in October, Musk has aggressively cut costs, including downsizing more than half the staff. While cuts help startups maintain liquidity, overall runway is shortening. Another factor eating away at runway is elevated inflation — an element founders can't control. As time between rounds continues to lengthen, founders may consider an add-on round with previous investors, explore alternative financing tools such as venture debt or take a down round.



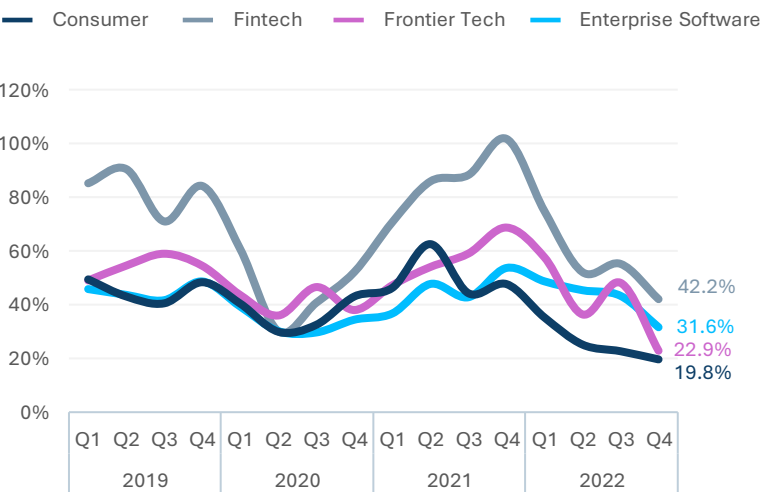
Percent of Consumer Tech Companies¹ with Increasing Revenue² by Subsector



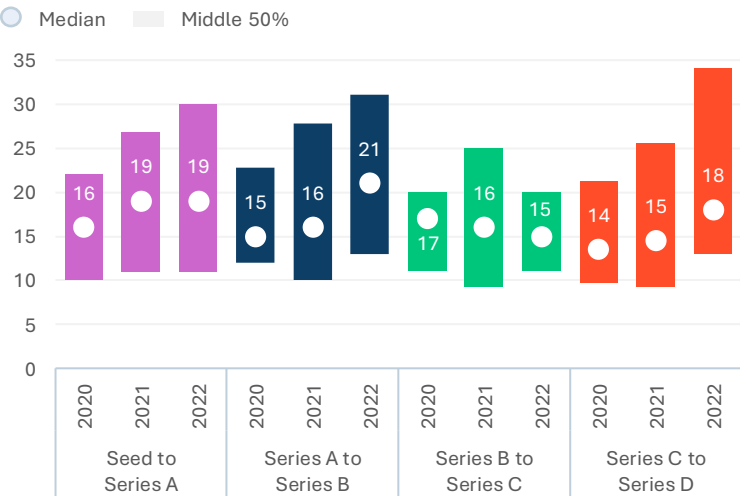
Median Months of Cash Runway³ for US VC-backed Consumer Tech Companies



Median Revenue Growth Rate YoY for US VC-backed Companies by Sector



Median Months Between Equity Rounds for Consumer Tech Companies⁴



Notes: 1) Consumer tech companies defined using SVB proprietary taxonomy. 2) Based on current 12-month revenue run-rate. 3) Based on net cash burn and 12-month revenue run-rate. 4) Analysis does not include any add-on or extension rounds. Source: PitchBook, SVB proprietary data and SVB analysis.

Pivot! Pivot! Pivot! To Profitability

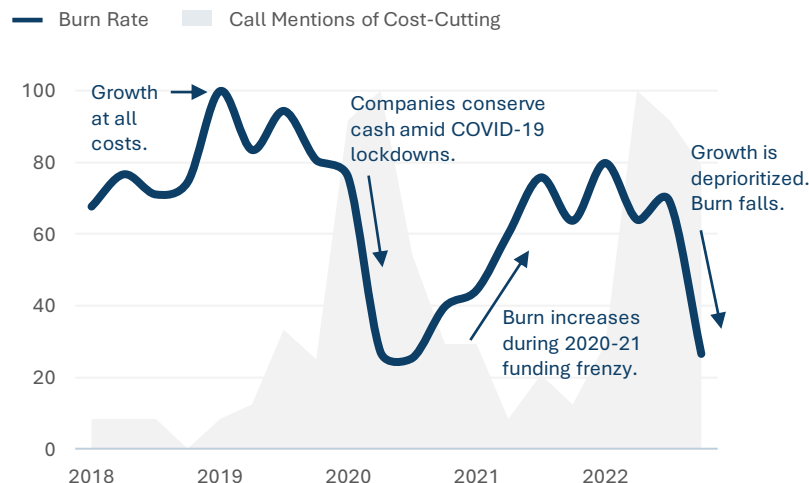
The growth-at-all-costs mentality of 2021 has been replaced by the need to conserve cash and grow efficiently. Consumer tech companies are focusing on unit economics to get the biggest bang for their buck. Metrics like Lifetime Value (LTV) and Customer Acquisition Cost (CAC) are under greater scrutiny by investors who want to know that their investment will be put efficiently to work.

This priority shift shows up in burn multiples, which are trending down as companies attempt to pivot toward profitability. Burn multiple measures the amount of net spend it takes to bring in net new recurring revenue. For example, a 3x burn multiple means a company is burning \$3 to earn \$1 of net new revenue. When capital is plentiful, burn multiples tend to expand as companies spend more to chase higher growth multiples — a metric that was rewarded during the boom times of 2021. The trend reverses during a downturn as investors hone in on margins.

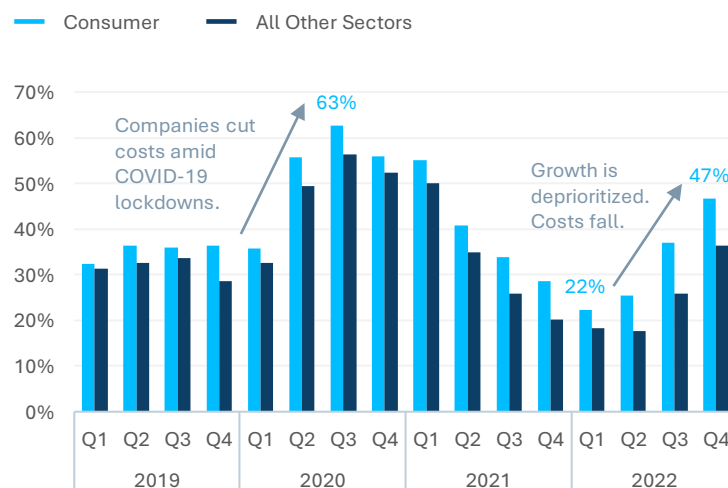
The result of this more careful spending is improving operating margins. Operating margins improved across consumer tech subsectors and revenue scales in 2022. In Q1 2022, at the height of the growth-first mentality, only 22% of consumer companies experienced improving their earnings before interest, taxes, depreciation, and amortization (EBITDA) QoQ. By Q4 2022, 47% of consumer tech companies had better margins. The 25 percentage point (pp) jump seen in 2022 in the share consumer tech companies with improving margins mirrors a similar jump seen during the pandemic. The share consumer tech companies with improving margins jumped nearly 28 percentage points from Q1 2020 at the onset of the pandemic to Q3 2020.



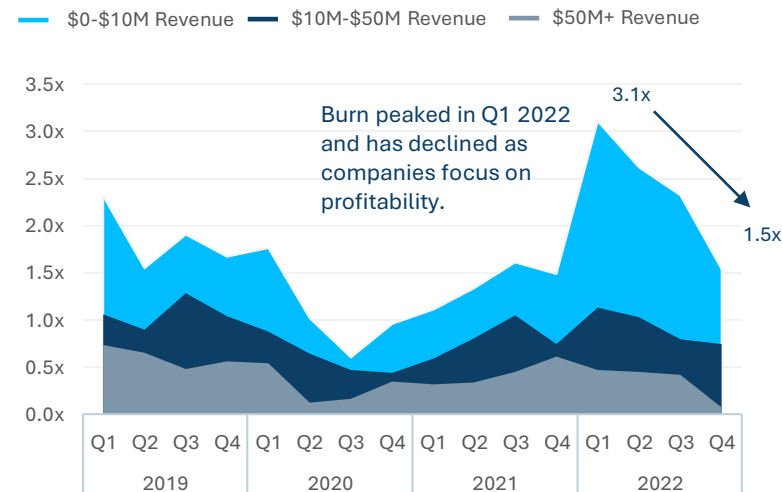
Indexed Median Consumer Tech Burn Rate¹ and Mentions of Cost-Cutting²



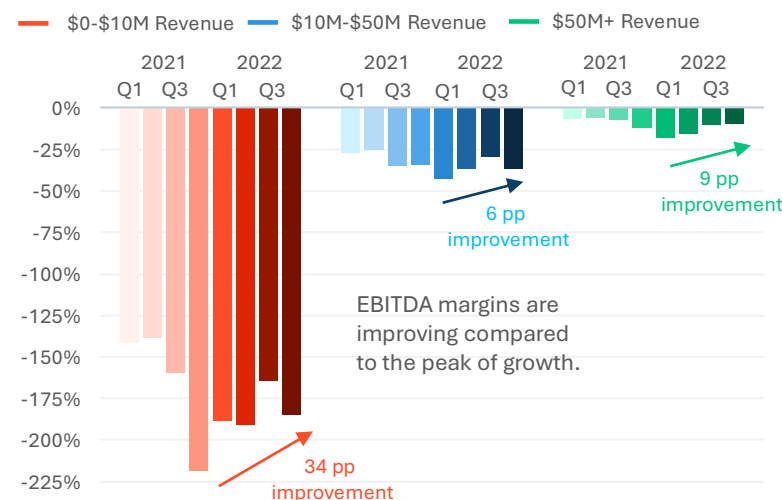
Percentage of US VC-Backed Tech Companies with Improving EBITDA Margin⁵



Median Burn Multiples³ for VC-Backed Consumer Tech Companies by Revenue⁴



Median EBITDA Margin for VC-backed Consumer Tech Companies by Revenue⁴



Notes: 1) Burn rate and call mentions are indexed to 100 at the peak. Burn rate defined as net burn divided by net new revenue. 2) Call mentions of cost cutting based on aggregate data from proprietary call logs. Call logs are in the form of written notes, not recorded conversations. 3) Burn multiple defined as net burn over net new revenue. 4) Revenue calculated using 12-month revenue run rate. 5) Change in quarter-over-quarter EBITDA margin. Source: PitchBook, SVB proprietary data and SVB analysis.

Coming Soon: An Exit Near You

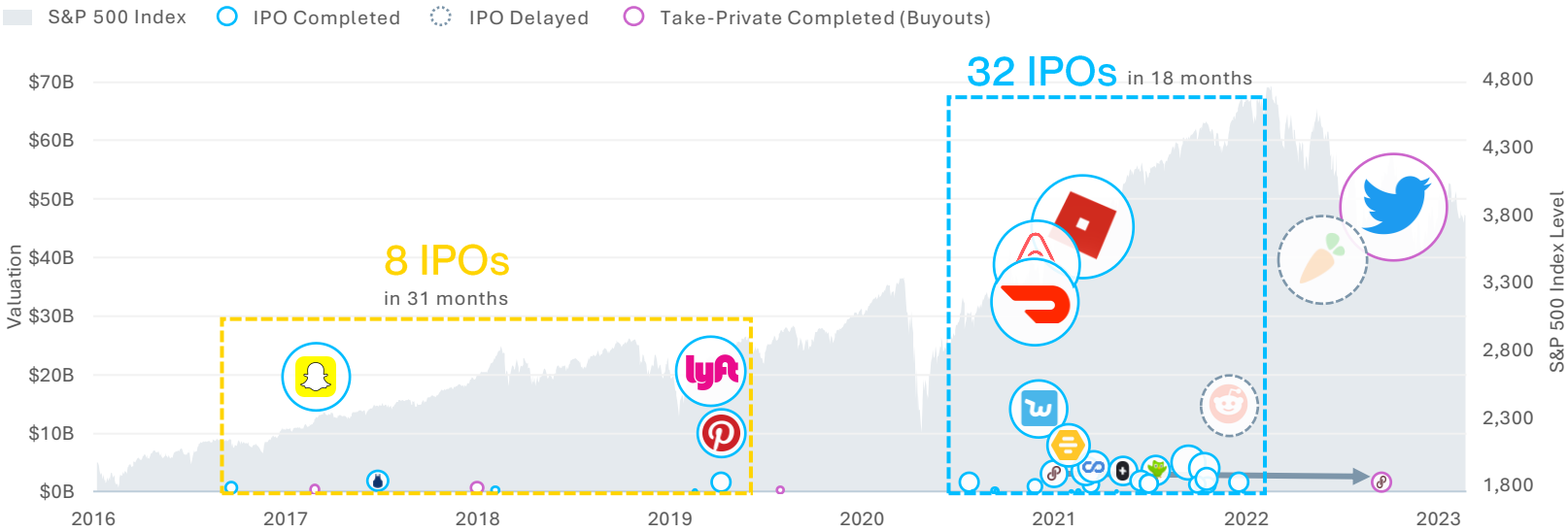
It was the best of times. The IPO window of 2020-2021 was like nothing consumer tech has seen since the Dot-Com era. Over thirty US VC-backed consumer tech companies went public via IPO in a span of 18 months — achieving record revenue multiples and valuations in the process. In December 2020, DoorDash’s IPO raised \$3.4B. Two months later, Bumble raised \$2.2B. The immersive world-building game Roblox raised \$13.8B direct listing in March 2021. In September, eyewear brand Warby Parker took in \$3.1B. In all, consumer tech IPOs raised \$30B in the year-and-a-half period ending in January 2022, 3.5x more than the previous four years combined.

With public markets in decline, the window on public tech exits has remained firmly shut for over a year. Reddit scrubbed plans to list at a \$15B valuation in December 2021. Now they’re one of many companies waiting for an exit. Instacart also announced plans to go public at the earliest opportunity. As the slowdown drags on and valuations drop, late-stage companies are feeling the pressure to repay investors. The backlog means that a single large IPO might clear a path for others to follow.

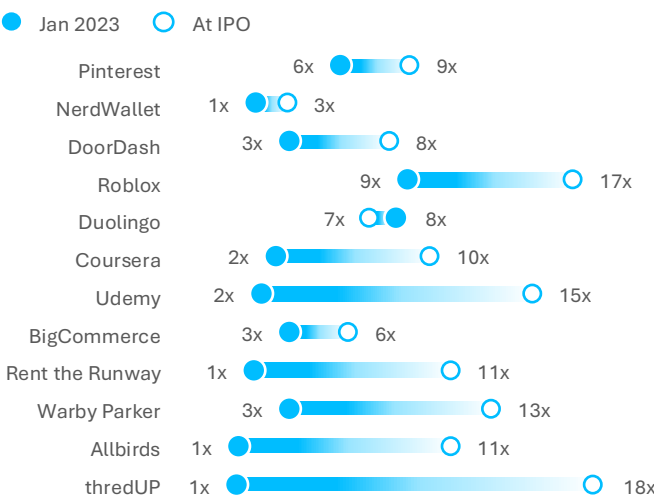
Some companies aren’t waiting. While M&A activity was down in 2022, a number of large deals did bubble up. In January, The New York Times acquired sports news site The Athletic for \$550M. In July, Shopify acquired the commerce fulfillment company Deliverr for \$2.1B. Elon Musk’s take-private of Twitter may be the exception to the rule. Leveraged buyouts are less likely to occur with interest rates climbing. Instead, companies may use cash reserves, stockpiled during the recent bull run, to make strategic acquisitions. M&A deals could ramp up as runway dwindles, forcing companies to sell under unfavorable conditions.



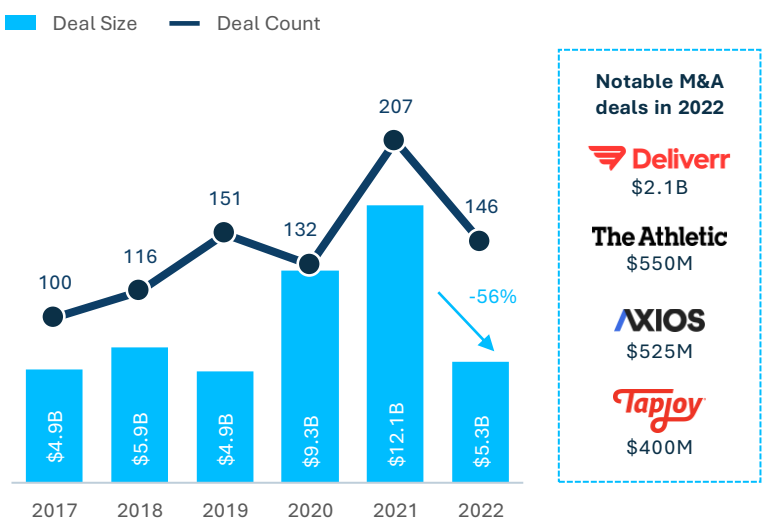
US VC-Backed Consumer¹ Tech IPOs and Take-Privates



Revenue Multiples² for Recent IPO US Consumer Tech Companies



US M&A Deals for VC-backed Consumer Tech Companies



Notes: 1) Consumer tech companies defined using SVB proprietary taxonomy. 2) Revenue multiple is the annualized revenue divided by post-valuation at the time of the IPO with current revenue defined as the annualized revenue divided by the enterprise value. Source: PitchBook, S&P Capital IQ, SVB proprietary data and SVB analysis.

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