



# The State of Fintech

A Review of the Health and Trends of the Fintech Industry

November 2022





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# Executive Summary

November 2022

## Whiplash!

This time last year, I was writing a much different cover letter. The innovation economy was at the peak of its best funding year ever, and fintech was at the center of that success. Companies in our industry were raising money at a breakneck pace for staggering valuations. Fast-forward to now and market conditions have changed dramatically. Founders are telling us about plans to “trim fat” and extend runway as consumer demand softens. While the public markets grapple with a correction, more people want to know: “Has the fintech bubble popped?”

From a valuations standpoint, you might see an easy answer. High-profile companies in our space have seen their public valuations fall sharply over the last 12 months. While down rounds are still rare, it's clear that valuations are resetting in the private markets. But that's only part of the story. Tough market conditions provide the best conditions to grow resilient startups. That's what we're seeing now. A healthy pipeline of promising new fintech companies is rising to the occasion, while more established companies are seeking new growth opportunities to capture market share.

In this year's *The State of Fintech* report, we dive into these trends and leverage SVB's unmatched proprietary data to offer a unique perspective on the fintech industry. Investment may be cooling from the record high in 2021, but not by much. Venture Capital (VC) investors are on pace to deploy \$38B into US fintech this year, the second-highest annual total for the US. However, capital deployments are now tapering with Q3 investment down 42% QoQ. In our benchmarking section, we detail which subsectors are faring best, indexing key performance indicators (KPIs) like cash runway and revenue growth. Our exits section details the backlog of IPO-ready fintech companies and the growing stable of unicorns.

Our spotlight on Web3 takes a closer look at decentralized finance (DeFi), blockchain developer activity and the intersection between corporations and crypto. We wrote this section before the recent collapse of FTX created fresh uncertainty in the space. While it's too soon to know how this event will impact the future of crypto, we believe the themes we discuss in the report — around regulation, compliance and fraud prevention — are even more relevant in the wake of such a high-profile failure.

There's no denying it's been a challenging year, but market moments like these can also present a golden opportunity for differentiation. Fintech infrastructure, commercial lending and regtech are areas with strong growth potential in the near term. Looking ahead into 2023, the economic picture remains foggy, but the long-term resilience of the fintech sector is unwavering.

Dan Allred

Senior Market Manager, Fintech  
Silicon Valley Bank





# Macro:

The Changing  
Fintech Landscape





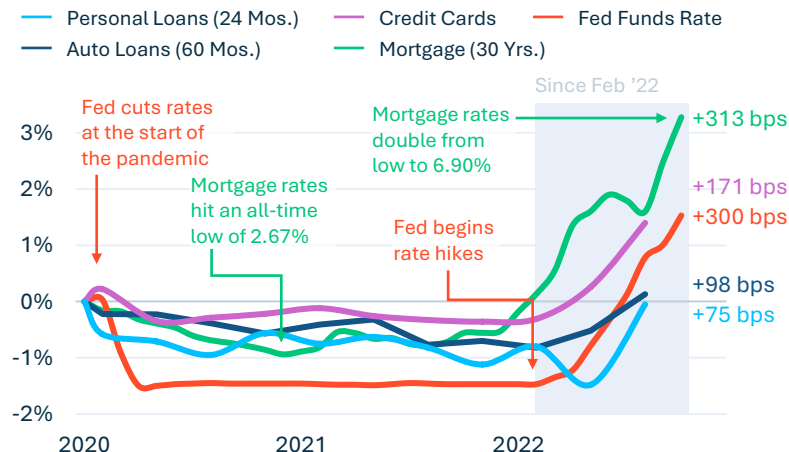
# Here's Looking at You, Fed

After years of consistent growth, an economic slowdown is well underway. US inflation reached a 39-year high in November 2021 and has stayed stubbornly put ever since, unmoved by six consecutive rate hikes from the Federal Reserve. The hikes pushed the benchmark lending rate from near zero in February to 3.83% in November, the fastest increase since 1980. Concerns over inflation, rising rates and geopolitical tension have caused public markets to enter bear-market territory. Both the S&P 500 and Nasdaq Composite indices are on pace for their worst annual returns since 2008. One of the most exposed sectors to these macro forces is fintech.

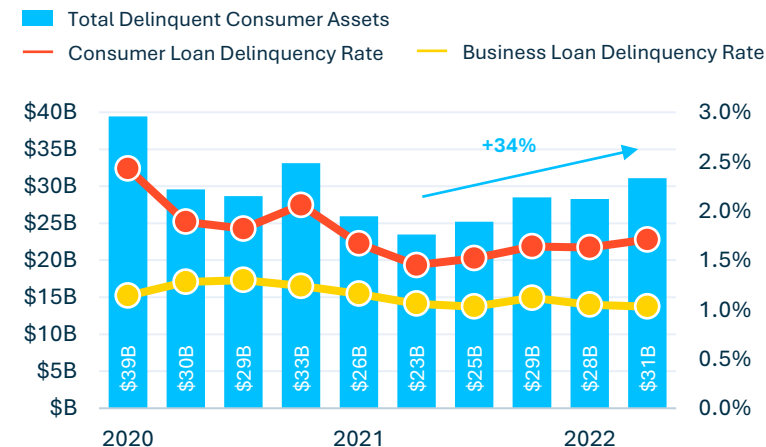
VC-backed companies that leveraged the free cash environment to offer products such as buy now, pay later (BNPL) loans and non-interest-bearing checking accounts may now face stiffer competition from traditional banks that have deeper deposits — a cheap source of capital. Fintech companies can pivot to meet these challenges, but changes take time. And retaining customers could require startups to spend heavily, and even take losses, at a time when equity costs are high and investors are valuing profitability more than growth. The uncertainty is weighing heavily on fintech stocks, wiping out most gains fintech companies saw during the recent bull market. The STOXX Global Fintech Index, for example, outperformed the S&P 500 until November 2021 but has traded at a discount ever since.

Trends that benefited fintech companies during the run-up of the past decade are now reversing themselves. Consumer interest rates are up across all categories. Household budgets are tightening as debt payments grow and inflation-adjusted wages drop. Mortgage rates, for example, have more than doubled in the last year. Delinquency rates for consumer debt are also increasing with delinquent consumer assets up 34% since Q2 2021.

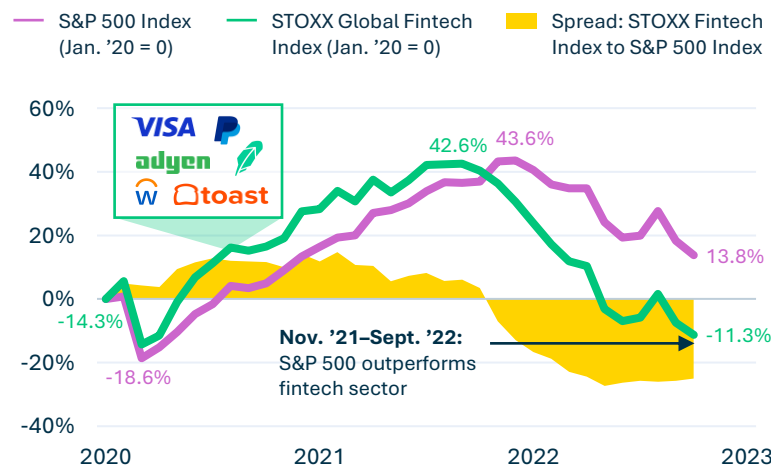
## Change in US Interest Rates<sup>1</sup>



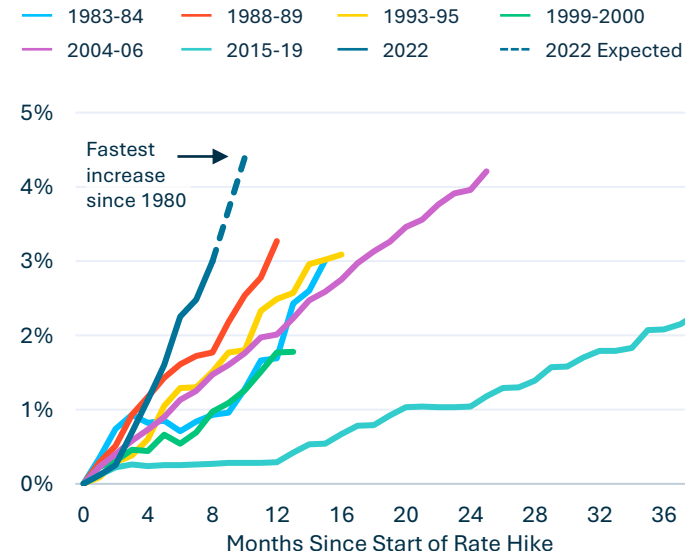
## US Loan Delinquencies<sup>2</sup>



## Returns of S&P 500 and STOXX Global Fintech Index Since Jan 2020<sup>3</sup>



## Federal Fund Rate Hikes<sup>4</sup>



Notes: 1) One basis point (bps) is equivalent to 0.01%. Auto rates are for new vehicles. 2) Delinquent loans are past due 30 days or more. 3) Data aggregated to monthly average as of 10/10/2022. The STOXX index includes 172 companies involved in financial technology. 4) Change in monthly average of the daily Federal Funds Effective Rate. Expected rate based on median projection of the Federal Open Market Committee.

Source: St. Louis Fed, Cleveland Fed, S&P Capital IQ, PitchBook and SVB analysis.

# Still Buffering: Regs Lag Innovation

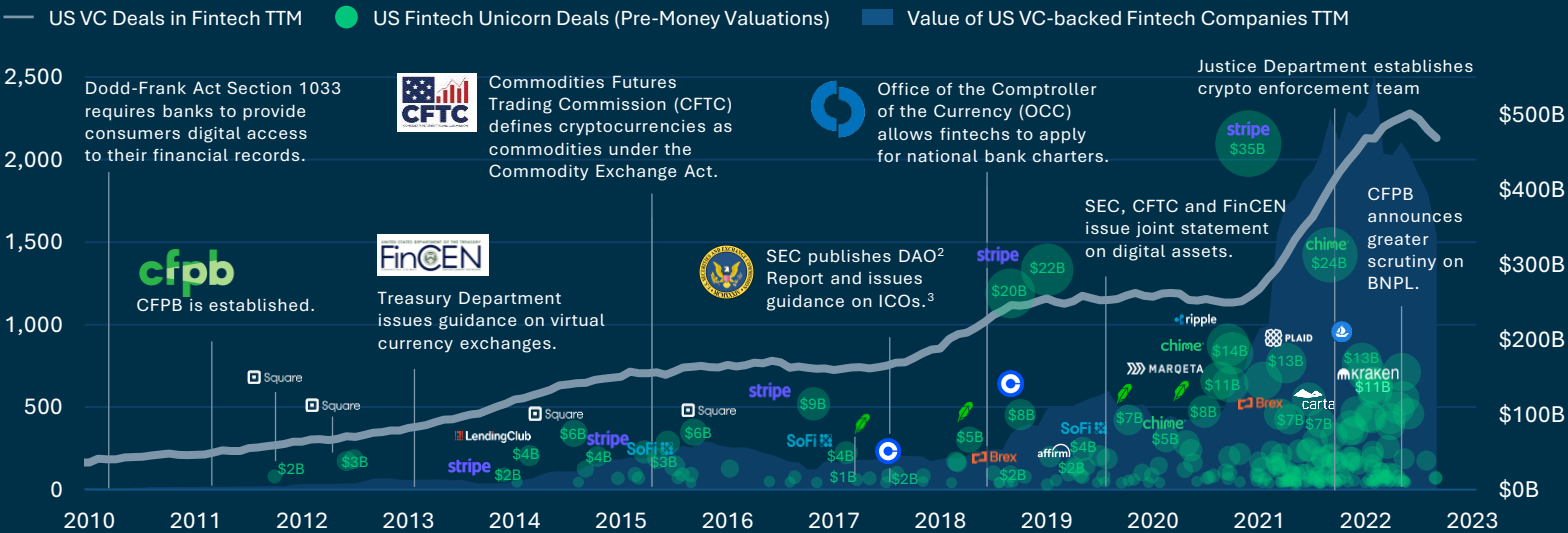
The pace of fintech innovations such as digital wallets, peer-to-peer lending, commission-free stock trading and cryptocurrency has strained federal regulators’ ability to police them. While traditional financial institutions grappled with a mountain of new regulations following the Great Financial Crisis, fintech companies largely avoided such regulations to build tech platforms with less oversight than the large banks and institutions they were disrupting. The result is a shifting mesh of rules that are expensive for founders to navigate and complicated for consumers to understand.

Fintechs today are overseen by dozens of federal agencies with broad mandates to protect consumers from data breaches, unfair lending and fraud, while also ensuring digital platforms don’t enable criminal activities like money laundering or avoiding international sanctions. Two companies that provide similar services may face vastly different regulatory regimes. Coinbase, for example, is registered as a money services business with the Treasury Department (the same as Western Union), while Robinhood, which also offers crypto trading, is registered as a broker-dealer with the Securities and Exchange Commission (SEC). SoFi issues loans under its own US banking charter, while Chime offers loans through third-party banks. The legal risks are so fraught that many fintechs turn to regulatory tech companies to stay compliant.

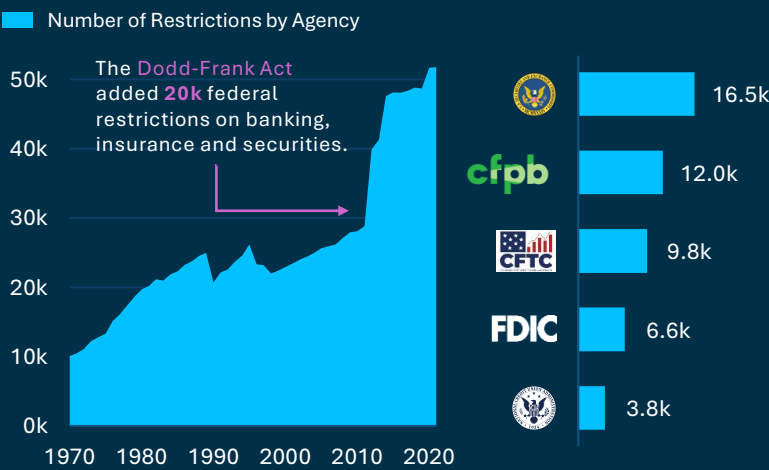
Now that economic uncertainty is mounting, federal oversight is only heating up. In September, the Consumer Financial Protection Bureau (CFPB) signaled that greater scrutiny is coming for the short-term consumer loans known as BNPL, which aren’t required to give data to credit agencies. Popularity for BNPL skyrocketed during the pandemic, with originations jumping from 17 million loans in 2019 to 180 million in 2021 — a 10.6x increase.



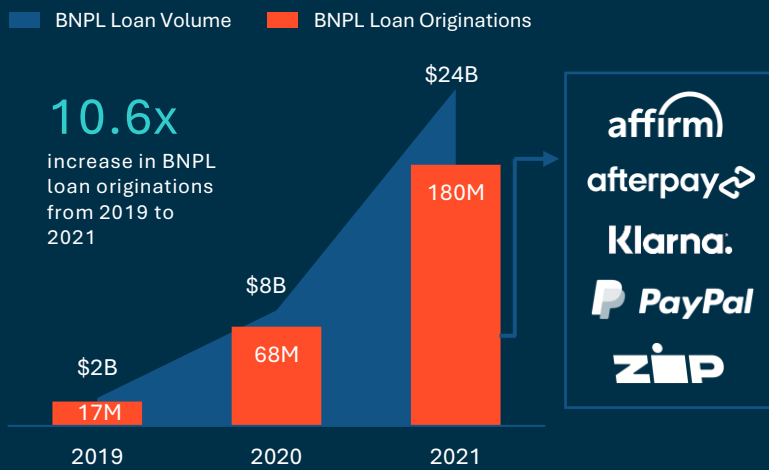
## US Timeline: The Rise of Fintech Companies and Key Regulatory Actions<sup>1</sup>



## US Regulations on Financial Services<sup>4</sup>



## US BNPL Loan Originations and Volume



Notes: 1) Square became Block in 2021. Not shown: Stripe valued at \$95B in March 2021. 2) Decentralized Autonomous Organization 3) Initial Coin Offering 4) The number of restrictions imposed by federal agencies overseeing the financial sector. Restrictions are the words “shall,” “must,” “may not,” “required,” and “prohibited” in regulations. Logos from top to bottom: SEC, CFPB, CFTC, Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA).

Source: Reghub.ai, CFPB, PitchBook and SVB analysis





# Investment and Benchmarking:

Founders Focus on Fundamentals



# Flat Is the New Up

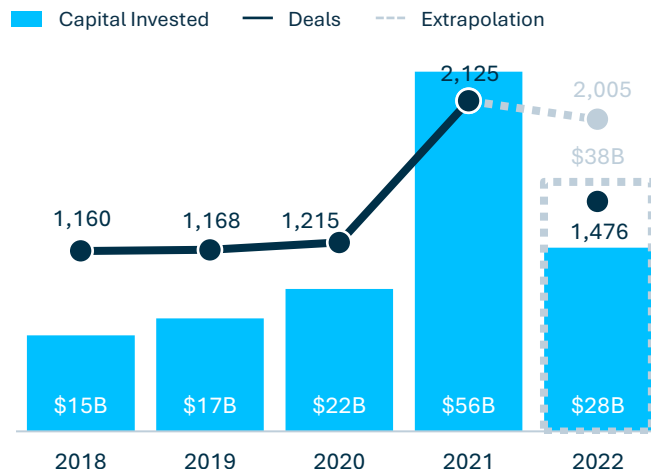
Fintech was among the best-funded sectors in a record year for the innovation economy in 2021. Investment in fintechs jumped 2.5x from 2020 to 2021, while investment for all sectors increased 2x. Intense investor competition for deals caused valuations to balloon. By October 2021, the median Series C+ valuation was \$965M, up 2x from October 2020.

Yet the environment has changed in 2022. VC-backed valuations at all stages have started to decline as investors paused for the summer, hoping public markets would rebound. With no rally in sight, reality is setting in and valuations are retreating. The steepest declines in valuation have occurred for late-stage fintech companies, which are most susceptible to public market volatility and changes in the valuations of their public market comps. Enterprise value (EV) to next 12 months (NTM) revenue multiples for public fintech companies has declined 55% since the market peaked on January 3, 2022.

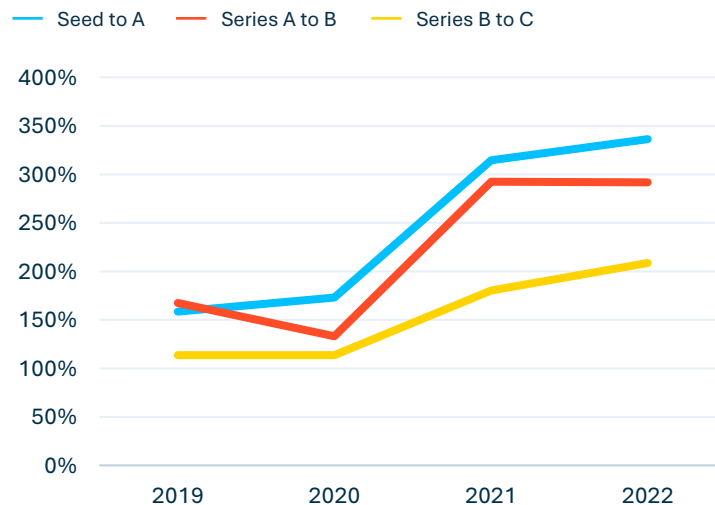
While early stage valuations have declined, these companies are generally more sheltered as investors recognize that the early stage is a long-term game and can weather a down market — even benefiting from the availability of talent economic slowdowns present. However, valuations don't tell the whole story. Anecdotally, investors are offering tougher terms with 1-2x liquidation preferences. Such a compromise can be acceptable for founders who want to avoid a down round and investors who protect themselves from downside risk.

While down rounds are not generally reported in data, analysis of SVB call notes indicates that down rounds, flat rounds, inside rounds and extension rounds are being discussed more frequently, a sign that more companies are considering these measures.

## US Fintech VC Investment



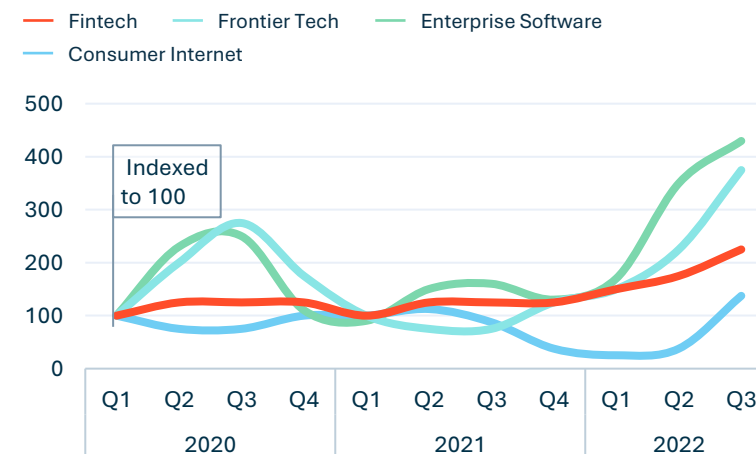
## Median US Valuation Step-up by Series



## US Fintech Trailing 180-Day Pre-money Valuation Index<sup>1</sup>



## Mentions of Down Rounds, Inside Rounds, Flat Rounds and Extensions<sup>2</sup>





# Shine Fades for Consumer Apps

When it comes to funding, certain fintech subsectors have fared better than others. Blockchain, Crypto and Web3 companies have remained most resilient at attracting deal flow in 2022. These companies experienced the slightest drop in year-over-year (YoY) deal activity of any subsector but have gained billions in new investments, benefiting from crypto-specific VC funds that were raised in 2021. However, cracks began to show in Q3 following declines in crypto asset prices. Web3 posted large quarter-over-quarter (QoQ) declines in deal flow.

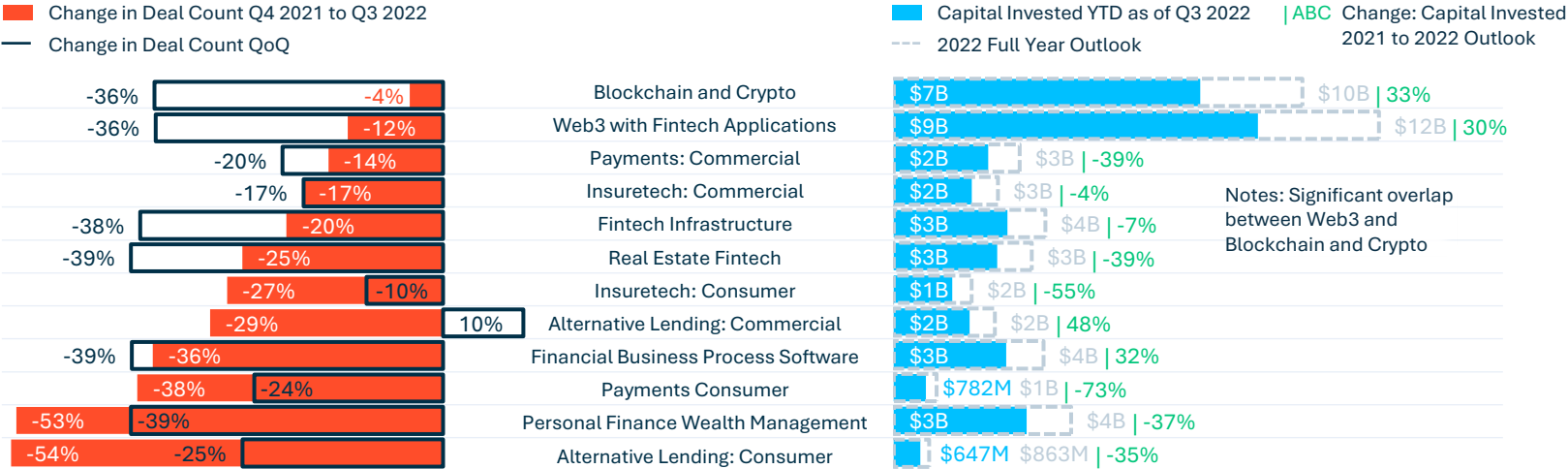
The hardest hit subsectors in 2022 are those most exposed to the negative macro conditions impacting consumer wealth management. Consumer alternative lending and personal wealth management have both seen deal counts cut in half in 2022, with investment volume down by over a third. Consumer payment apps saw investment drop by 73% from 2021 to the extrapolated total for 2022. These sectors are being hampered by rising interest rates, tightening household budgets and down public markets. Robinhood, for example, lost 6.6 million users in 2022, dropping from 22.5 million in 2021 to 15.9 million this year.<sup>1</sup>

While consumer-facing apps are struggling to attract funding, B2B fintech companies have remained relatively robust. Commercial payments, commercial insurtech, and fintech infrastructure have benefited from increased interest in building the rails and infrastructure for enterprise fintech applications.

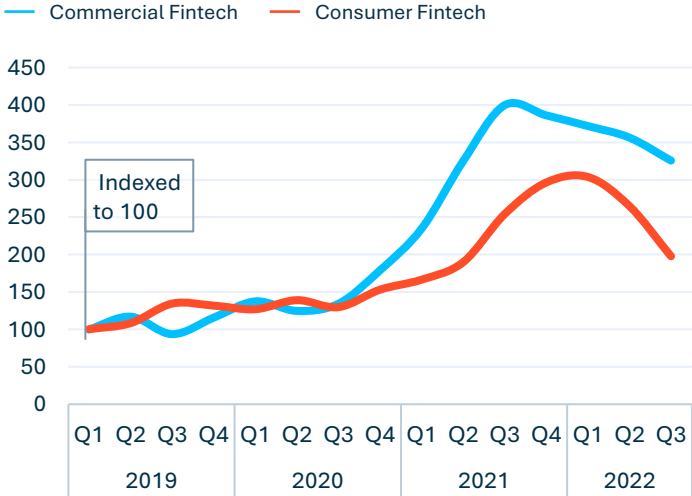
We can see these trends play out in revenue growth rates for consumer and commercial fintech platforms. Consumer fintech saw substantially higher growth rates in 2019 and 2020 as consumers moved their spending, banking and investing to fintech platforms. However, starting in mid-2021, revenue growth rates for both consumer and commercial sectors began to trend together as consumer adoption of fintech has slowed.



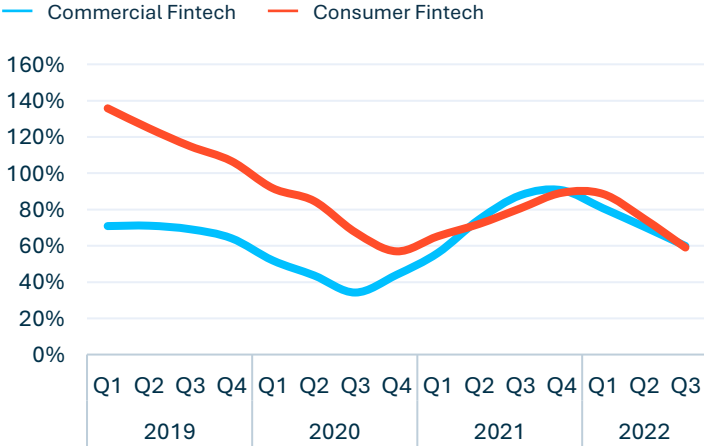
## US VC Investment and Change in Deal Count by Fintech Subsector<sup>2</sup>



## US VC Investment by Customer Type



## Median YoY US Revenue Growth by Customer Type



Notes: 1) Estimate from BusinessofApps.com 2) Web3 companies overlap with other subsectors; Change in deal count compares Q4 2021 deal count to Q3 2022.

Source: PitchBook, BusinessofApps.com, SVB Proprietary data and SVB analysis.

# More Money, Less Problems

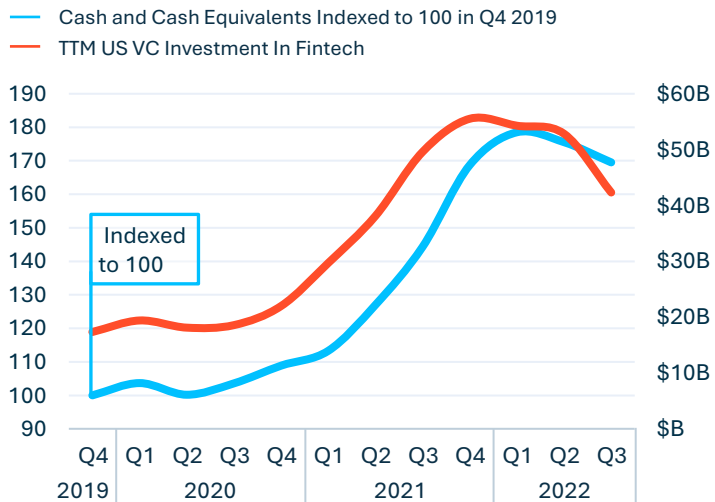
As COVID-19 hit in early 2020, companies were advised to cut burn and raise 18-24 months of runway. Many companies did so successfully, and as a result, the number of companies that needed to raise capital within 12 months dropped significantly across all stages.

When the worst-case scenario didn't play out, operations returned to normal, but companies had stockpiles of cash in the bank. Not only had startups saved, many had also raised new rounds. The investment climate was going gangbusters. Companies could raise cheap equity (given the high valuations) and significant sums of capital. For example, Series B valuations peaked at a level 265% higher than the start of 2020. This led to a surge in cash balances for US VC-backed companies. They put the money to work, and burn rates climbed. Subsequently, remaining months liquidity (RML) began to fall — substantially. Payments companies, for example, had a median of 40 months runway at the height of the pandemic as demand for cashless technology skyrocketed and investors filled their coffers. As spending increased, cash runway for payments companies fell to 12 months by Q3 2022. Real estate fintech companies, by contrast, had 8 months runway in Q3 2022.

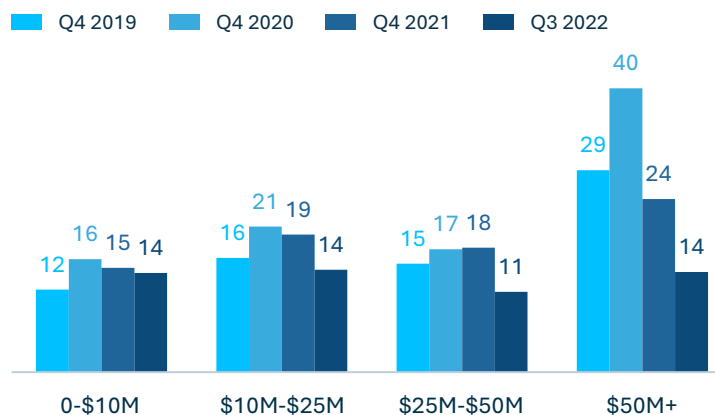
Today, 44% of fintech companies with under \$10M in revenue need to raise capital in the next 12 months. With top-tier investors such as Sequoia recommending 18-24 months of runway, these companies may face a tough fundraising environment as they look to extend runway without being labeled as distressed by VCs. We have also seen an increased interest in companies seeking non-dilutive financing, such as venture debt, to increase their cash runway. It's becoming more common to stack a venture loan on top of a funding round as a way to maximize runway.



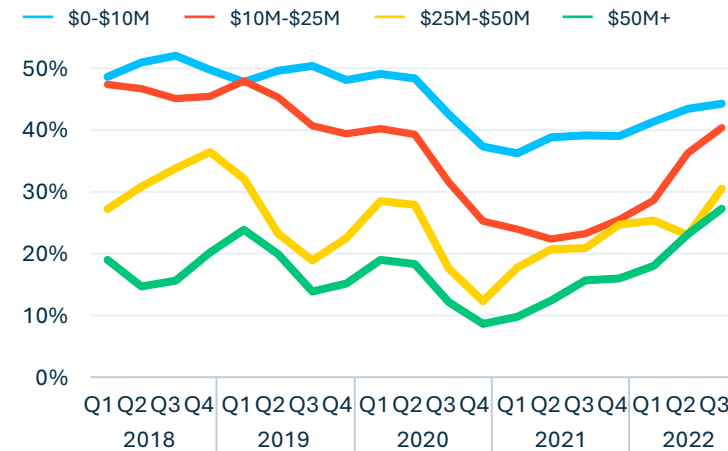
## VC-backed Fintech Cash Balances<sup>1</sup>



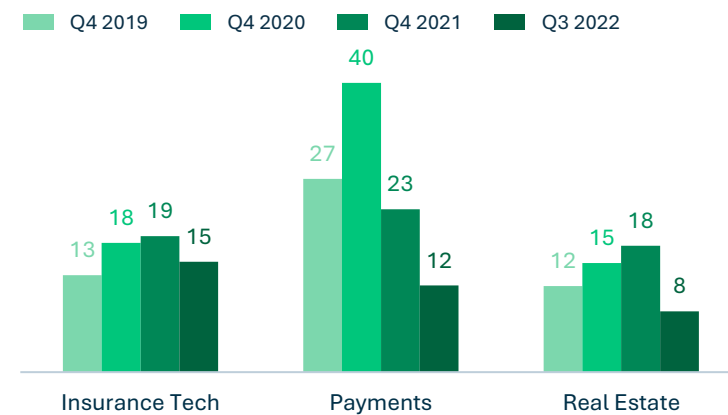
## Median Months of Cash Runway by Revenue Band<sup>2</sup>



## Share of US VC-backed Fintech with Less than 12 Months of Runway by Revenue<sup>2</sup>



## Median Months of Cash Runway by Subsector



Notes: 1) Median value of cash and cash equivalents held by US VC-backed fintech companies, indexed to 100 in Q4 2019; using trailing two quarters of financial data. 2) Annual revenue calculated by multiplying the run rate for the time period by the number of periods in a year.

Source: SVB proprietary data and SVB analysis.



# Slow Your Grow

The tough economic environment is taking its toll. As with other sectors, fintech companies are growing more slowly in 2022. An increasing share are not growing at all. SVB proprietary data shows that 38% of fintech companies lost revenue from Q2 2022 to Q3 2022, up from 26% the prior quarter.

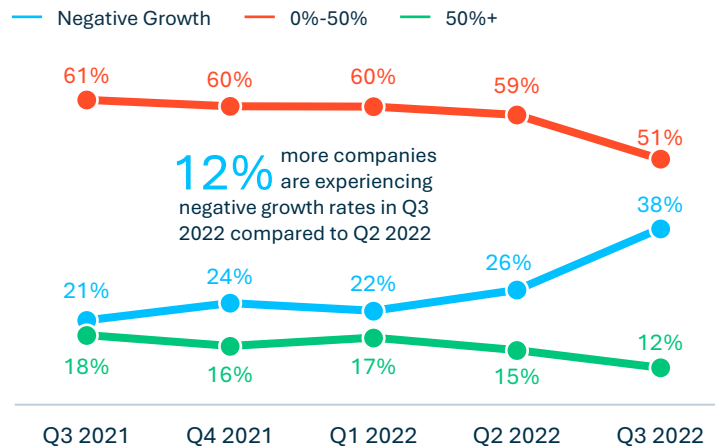
Public companies have mirrored this lackluster growth. Among formerly VC-backed fintech companies that went public since 2018, the average revenue growth weighted by company size fell from 16% in Q4 2021 to -3% in Q3 2022.

The headwinds facing these companies are primarily driven by the pace of interest-rate hikes. Fintechs face less competition from traditional banks when interest rates are near zero and equity is cheap. Most neobanks, for example, don't offer interest on checking accounts, and many rely on third-party chartered banks to issue loans. Their value tends to be in the convenience and flexibility of their tech interface. As traditional banks offer higher interest on deposits, customer retention may become a problem for platforms like wallet apps. The fast pace of the rate hikes may be especially challenging, because customers are more aware of the rising rates than they might be if the rates were slowly increasing over many months.

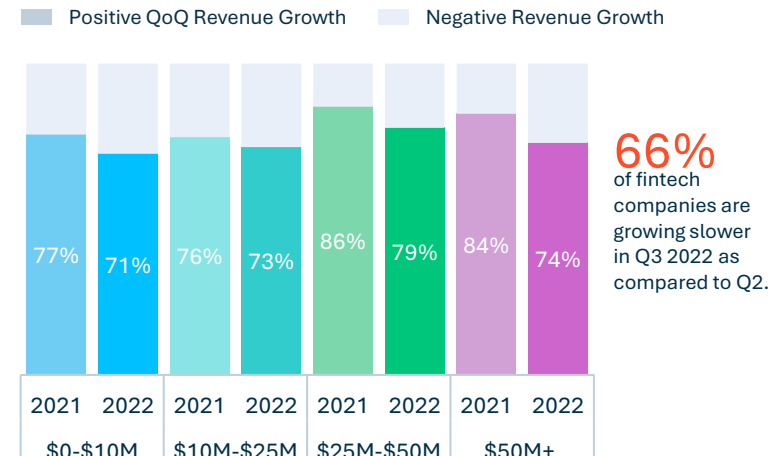
While fintech growth is lackluster, there is no escaping the fact that fintech is increasingly embedded in all our financial dealings. For example, some companies in the insurtech industry benefit from growing challenges in the regulatory environment, which create tailwinds for companies offering compliance and risk-management solutions. So short-run growth may be hampered, but long-term growth of the sector looks promising.



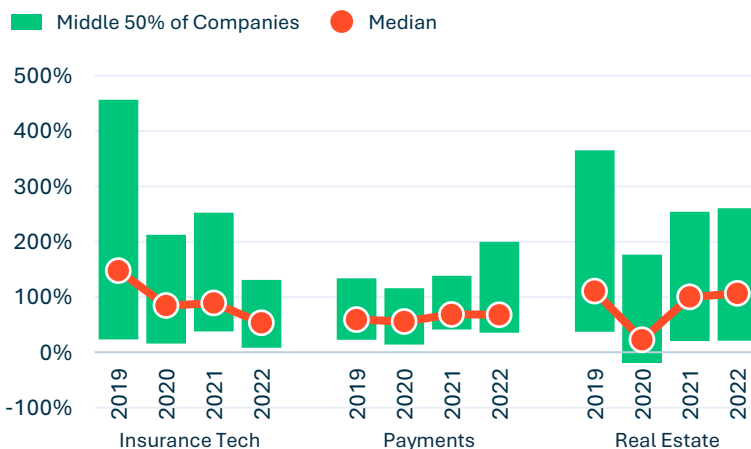
## Distribution of US VC-backed Fintech Companies by QoQ Revenue Growth



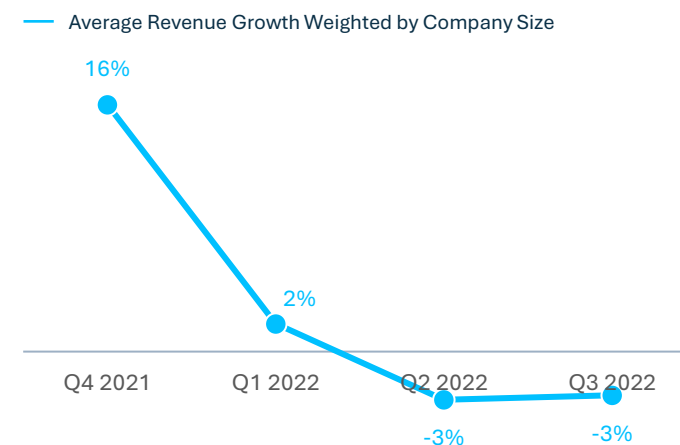
## Share of Companies by Revenue Growth and Revenue Band<sup>1</sup>



## Median QoQ Revenue Growth: US Formerly VC-backed Fintech IPOs Since 2018<sup>2</sup>



## QoQ Revenue Growth: US Formerly VC-backed Fintech IPOs Since 2018<sup>3</sup>



Notes: 1) Annual revenue calculated by multiplying the run rate for the time period by the number of periods in a year. 2) Analysis uses trailing two quarters to calculate percentile. 3) Fintech companies that have been listed on a major US exchange since 2018.

Source: SVB Proprietary data and SVB analysis.

# Time for a Haircut

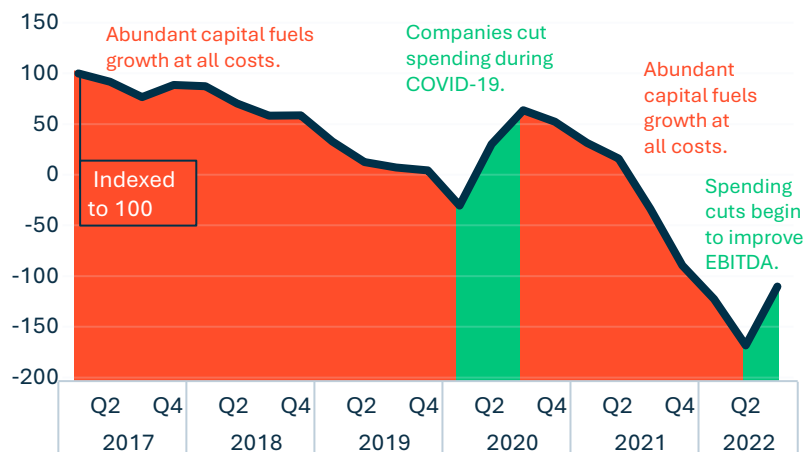
Just as you can't stop a train on a dime, it turns out you can't cut company spending in a single quarter. Five months after prominent investors such as Lightspeed and Craft Ventures first warned founders to begin tightening their belts, companies are finally curtailing their spending. According to SVB proprietary data, there were more fintech companies with decreasing net burn in Q3 2022 than at any point since the peak of COVID-19 lockdowns in Q2 2020. The cuts give us optimism that companies are right-sizing their expenses to match decreased expectations for spending and slower revenue growth.

Ad spend was the first to go, with cuts first spiking in Q3 2021. By Q2 2022, 59% of companies were slashing marketing spend. Computing spend was next with 35% of companies making cuts in Q3 2021, increasing to 50% by Q2 2022. Companies appeared to hold off on payroll cuts until Q2 2022, when they spiked to 41% of companies.

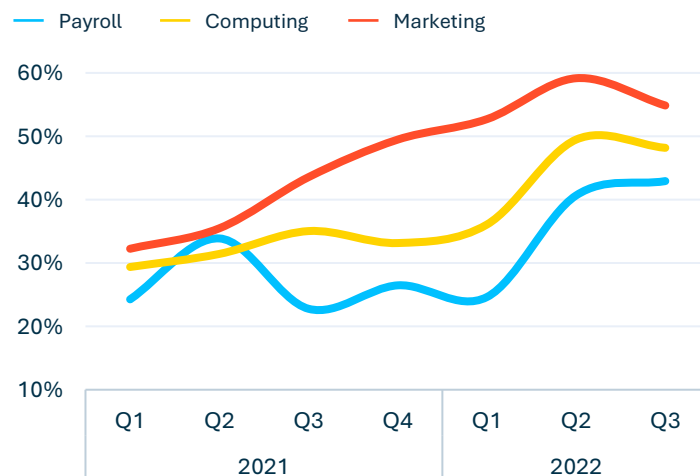
Among subsectors, fintech infrastructure, real estate and alternative lending companies have the highest share of companies cutting payroll. Payments and blockchain/crypto sectors have the fewest companies cutting payroll. In the short term, we expect payroll cuts to continue, as new tech layoffs are announced.

The tech employment tracker layoffs.fyi has counted 6,400 layoffs in the US finance and crypto sectors since January, accounting for 12% of all US tech layoffs tracked on the site. In Q3 2022, 399 companies announced layoffs — the most since initial COVID-19 lockdowns in Q2 2020, when 428 companies announced layoffs.

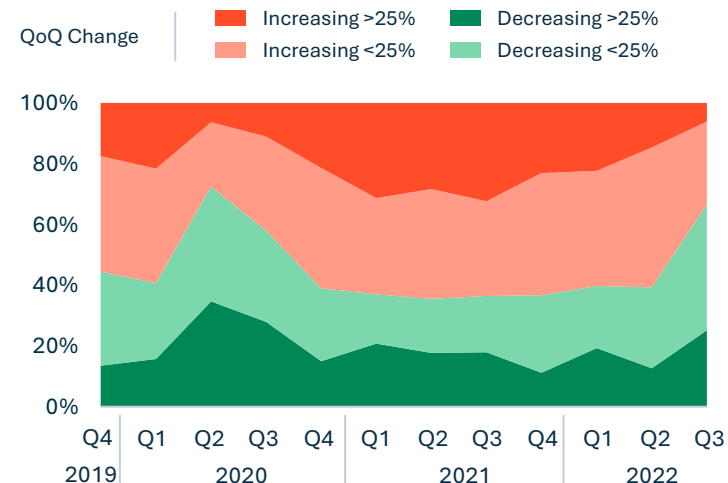
## US VC-Backed Fintech EBITDA Index<sup>1</sup>



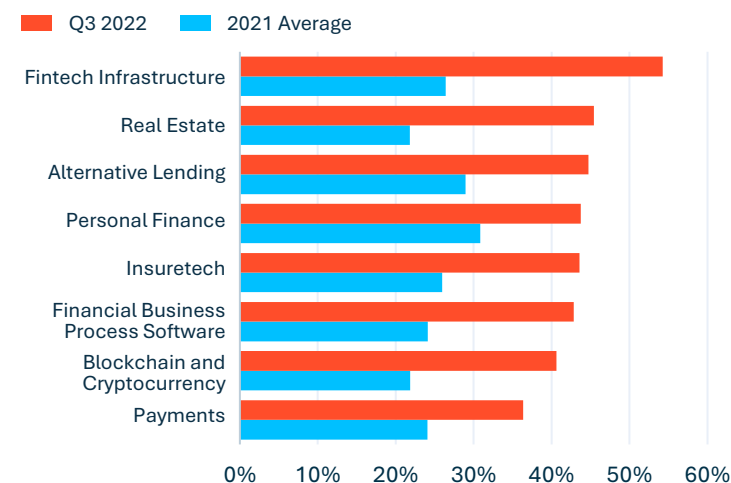
## Share of Companies Cutting Spend QoQ by Category



## US VC-backed Fintech Change in Net Burn



## Share of Companies Cutting Payroll Spend QoQ by Fintech Subsector



Notes: 1) Annualized median indexed to 100 at start of the period.  
Source: SVB proprietary data and SVB analysis.





# Exits:

On Hold, But Backlog Builds



# IPOs Slow; Backlog Continues to Build

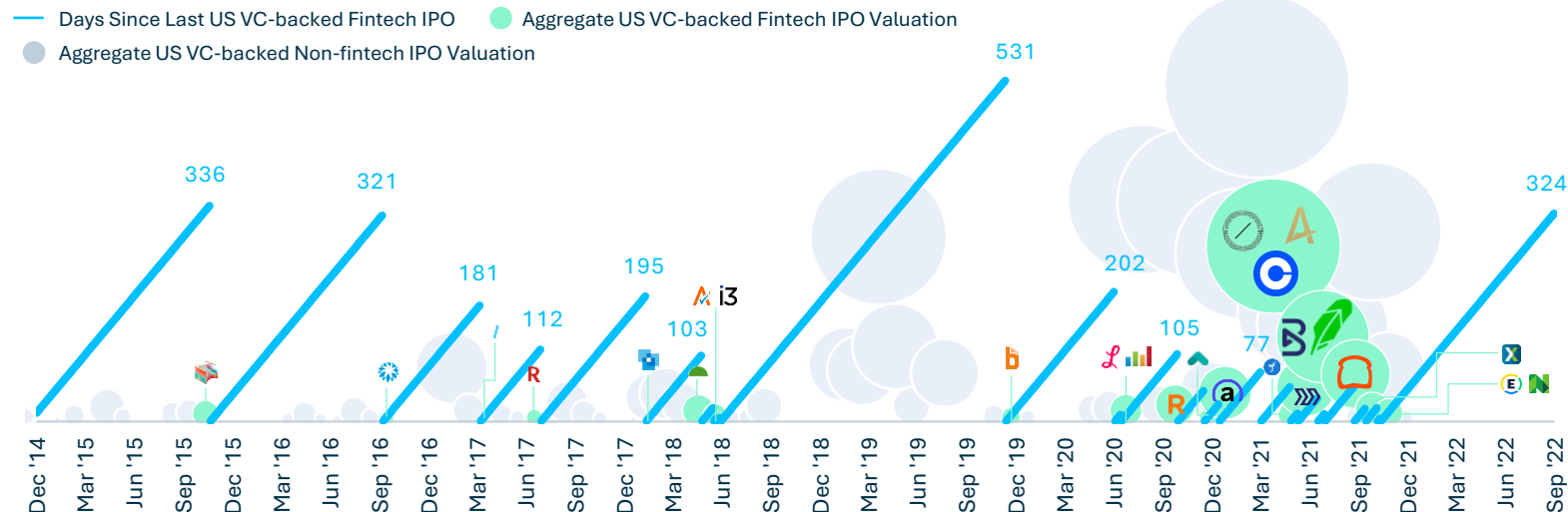
Following a record year of liquidity, the IPO window has undoubtedly remained shut in 2022. It has been nearly a year since the last US VC-backed fintech IPO, and while this isn't unprecedented, it is longer than most investors expected. With the slowdown in traditional IPOs, SPACs started to take up a growing proportion of IPOs, with 167 SPACs hitting the major US public markets in 2022. Currently, there are 60 US SPACs actively seeking fintech companies as a potential target, with nearly \$18B sitting in aggregate trust value. With north of 75% of them over halfway to their deadline date, this could put upward pressure on fintech activity.

However, it's not all doom and gloom. A growing backlog of fintech companies are looking to exit. US fintech unicorns have grown to 159 and stand at a staggering \$656B in aggregate valuation — a 38% and 15% increase since the end of 2021, respectively. Of the current cohort, blockchain/cryptocurrency and payment subcategories make up 28% and 52% of US fintech unicorns by count and aggregate valuation, respectively.

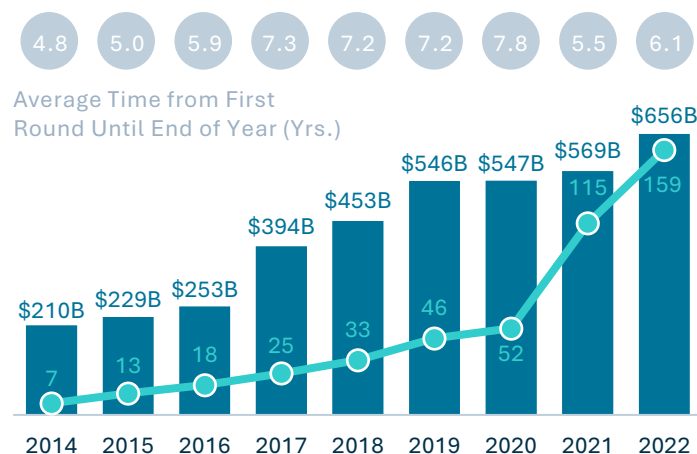
Furthermore, not only is the backlog increasing, but the length of time fintech companies have been private is also beginning to increase. Following a record year of liquidity in 2021, which saw the average age (defined here as the time from the first round to the latest private round) fall as US fintech unicorns went public, this trend has begun to reverse as public markets are no longer open. Should this trend continue, it could put pressure on startups to seek liquidity for investors and key employees via secondary sales on platforms such as Nasdaq Private Market (NPM). Based on proprietary data from NPM, more private fintechs are selling shares on the secondary market at a discount relative to the past three years — signaling the level of uncertainty felt amongst investors in market.



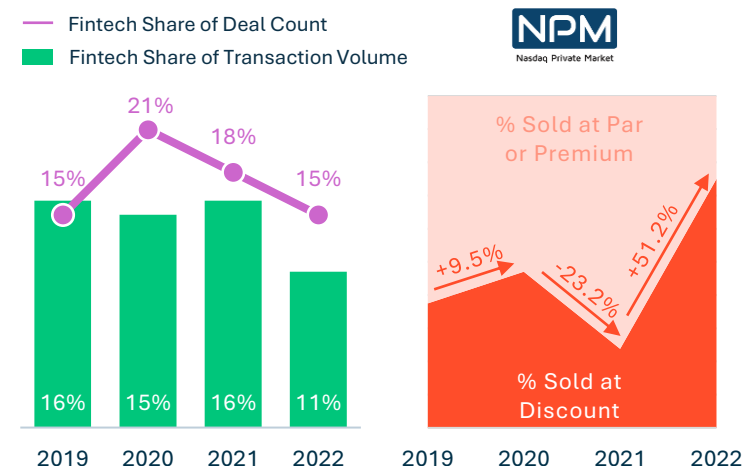
## US VC-backed Fintech<sup>1</sup> IPOs by Month and Days Since Last IPO<sup>2,3</sup>



## US Fintech Unicorns Count, Valuation and Time from First Round<sup>3,4</sup>



## Nasdaq Private Market: Fintech Secondary Liquidity Activity<sup>5</sup>



Notes: 1) Fintech classification based on SVB's proprietary taxonomy. 2) Company must be headquartered in the US and list on a major US exchange.

3) Data as of 9/30/2022. 4) Company must be headquartered in the US. Fintech classification determined using PitchBook verticals.

5) Data provided by Nasdaq Private Market and its subsidiaries as of 10/19/2022. SVB Financial Group has an investment in NPM. NPM is an independent third party and is not affiliated with SVB Financial Group. To learn more about NPM's private market solutions, click [here](#).

Source: PitchBook, Nasdaq Private Market, SPAC Track and SVB analysis.



# Let's Take This (Company) Offline

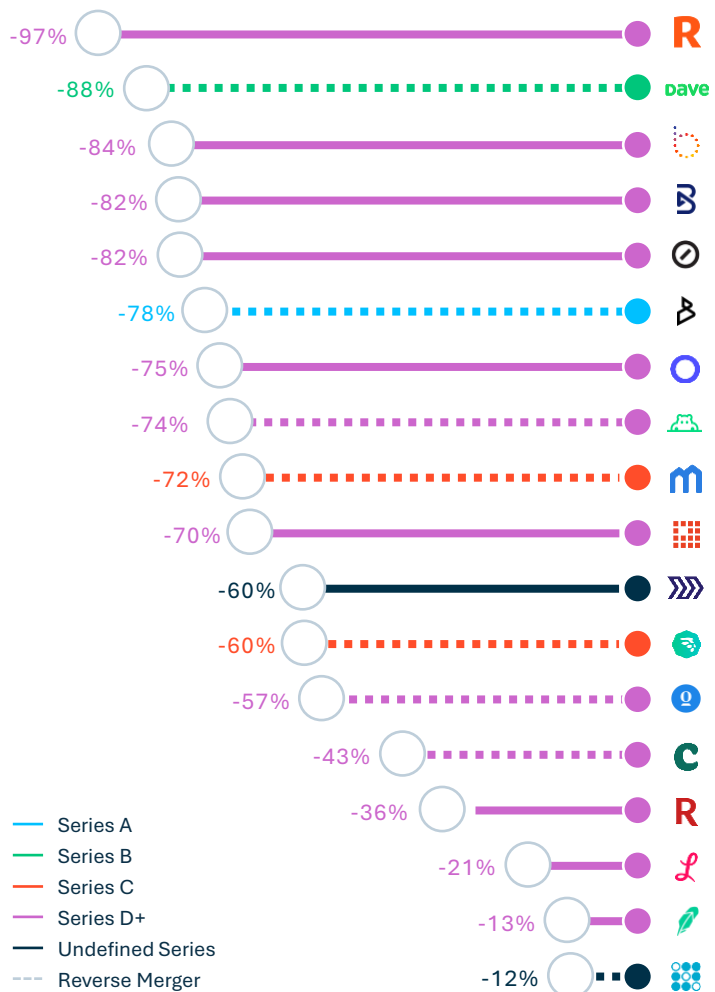
Following a historic year in 2021 for deals within the US venture-backed fintech universe, acquisition activity has softened in 2022 — though it remains on track to outpace pre-pandemic levels. Despite this, it's fair to say most investors are surprised there hasn't been an increased uptick in activity given the tougher fundraising conditions, slower economic growth and growing proportion of startups experiencing declines in revenue and cash runway. This may be partially attributed to the fact that valuations have yet to fall in-line with historical correction periods.

However, for public fintechs, the opposite could not be more true. Public US fintech stocks have seen NTM revenue multiples fall nearly 70% since the same time last year.<sup>1</sup> In fact, a number of notable public fintechs have fallen well below their last private valuation (LPV), with some even trading below their Series A and B rounds. The fall in valuations could serve as an attractive entry point for a prospective buyer for a take-private transaction. This is especially true when one considers how much these companies have scaled since their last private round. For example, Opendoor Technologies had annual revenue of \$1.8B for fiscal year 2018 (around the time it raised its Series E2 at a \$3.8B valuation). As of the last 12 months ending June 2022, Opendoor's revenue stood at \$15.4B — more than 8x the revenue figure from 2018.

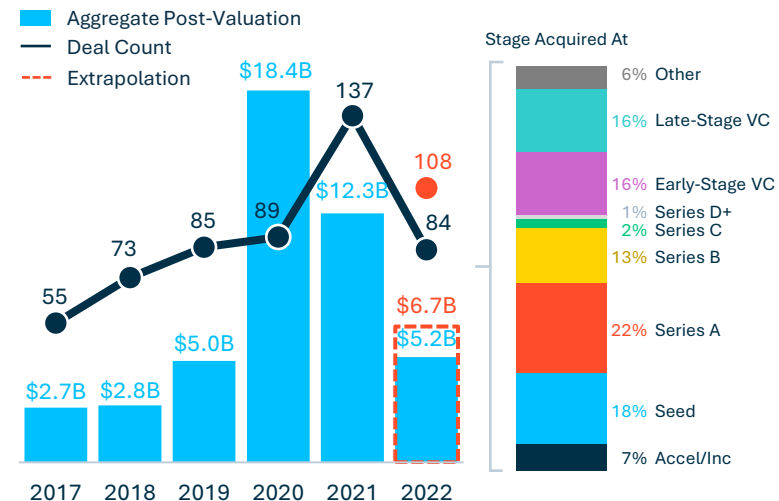
These changing financial dynamics could attract private equity (PE) buyers, especially as global PE buyout dry powder continues to mount and the "age" of this dry powder is increasing. With funds generally aiming for deployment of capital within the first four years, this suggests that there is still a significant amount of capital that funds will need to deploy in the near future — or face the prospect of returning funds to limited partners (LPs). This need to deploy capital may encourage activity, placing upward pressure on dealmaking.



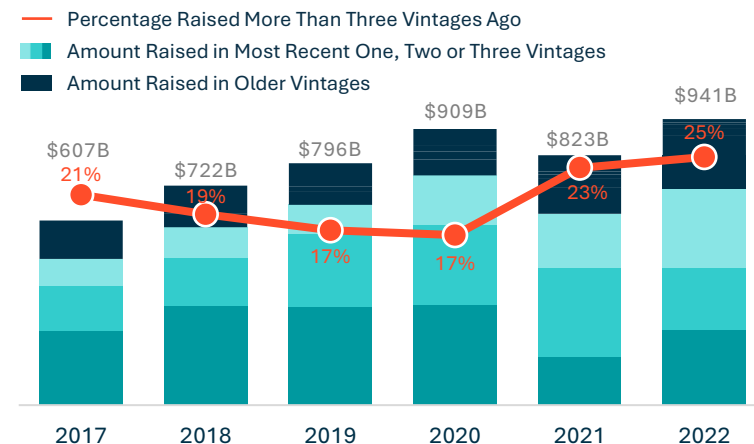
## US Public Fintech Stocks Trading Below LPV<sup>2</sup>



## US VC-backed Fintech Acquisition Activity<sup>3</sup>



## Global PE Buyout Dry Powder, by Vintage<sup>4</sup>



Notes: 1) Data based on public fintech companies within the F-Prime Capital Fintech Index. 2) LPV based on post-valuation of most recent equity round prior to going public. Data as of 10/31/2022. 3) Data as of 9/30/2022. 4) Note that in some cases, fund vintages are reclassified by the data provider (Preqin) later in the fund's life. These charts assume the original fund vintage remains constant throughout the timeframe. Data for 2022 is as of 9/30/2022; all other years are as of year-end.

Source: PitchBook, Preqin, S&P Capital IQ and SVB analysis.



# Web3 Spotlight:

Building for a Crypto Future





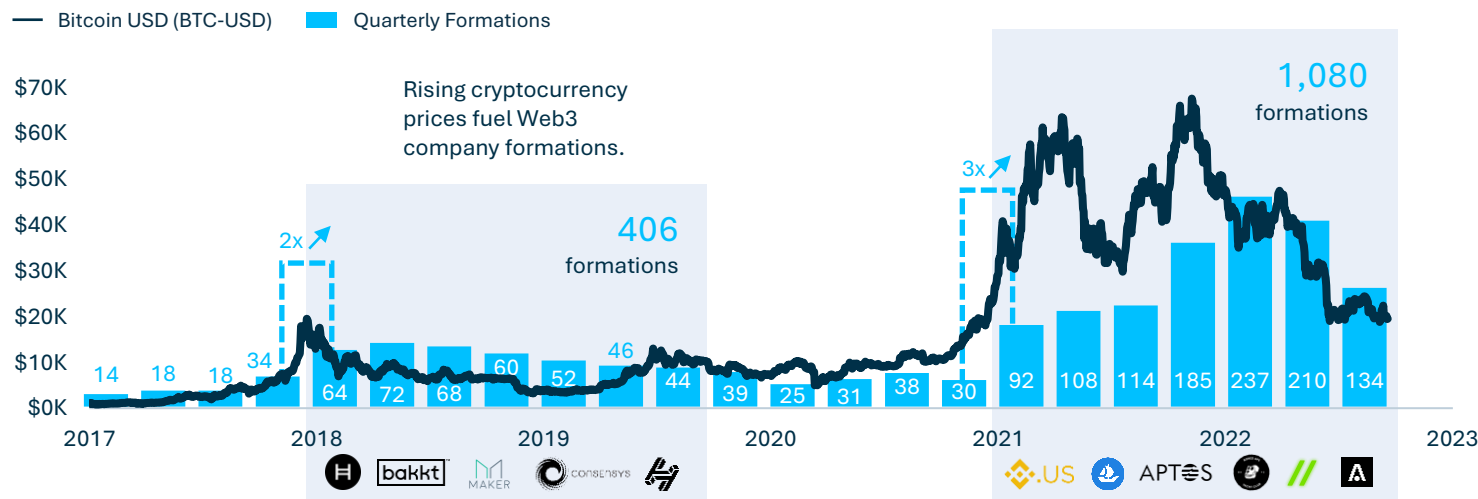
# Can't Stop, Won't Stop

By any metric, Web3 was the breakout star of the innovation economy over the last two years. In addition to massive gains in funding and public attention, the term itself — a catchall for efforts to build a new digital economy on cryptographic networks — became a unifying banner for far-flung elements of crypto users and builders. As cryptocurrency prices climbed and non-fungible token (NFT)-mania took over in 2021, investment poured into Web3 projects, both on chain and off. Company formations, as measured by first VC financings, initially spiked in Q1 2021, increasing 8x over the next five quarters to peak at 237 formations in Q1 2022.

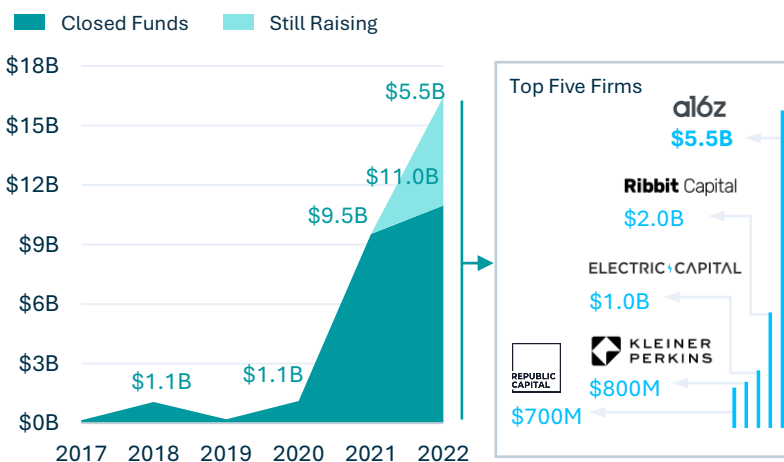
Now that the markets have turned, formations are down. But the floor is now higher than it was before the spike. It's a familiar development cycle in the crypto space. During the last crypto price boom in 2017-18, Web3 company formations jumped in proportion to the price spike of bitcoin, the dominant cryptocurrency. The companies seeded from that spike and the long tail after it built the infrastructure and applications that enabled the recent growth in user adoption. Now, the funds raised during the last boom are building the foundation for the future of crypto.

Investors clamored for crypto deals in 2021. VC deal activity in Web3 grew 3.7x from Q1 2019 to Q1 2022, higher than any other tech sector by far. The competition for deals spurred some firms to signal their commitment to the space and capitalize on LP interest by establishing crypto-specific funds. The funds attracted \$16.5B in funding, led by Andreessen Horowitz (a16z), which earmarked \$5.5B for crypto investments.

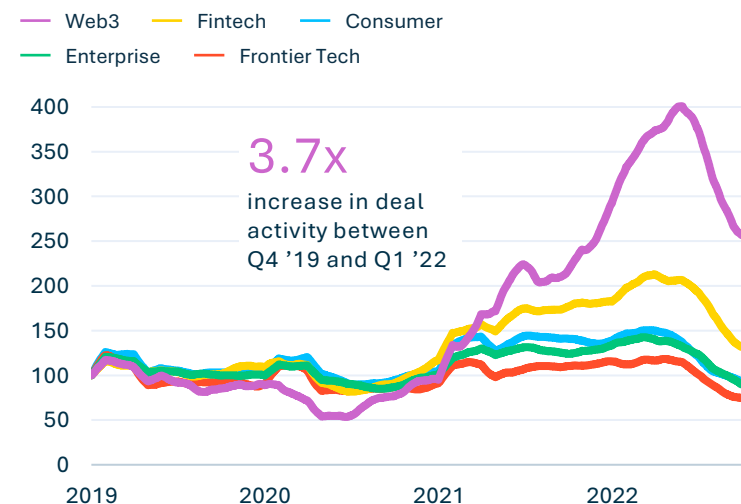
## Bitcoin Price and US Web3 Company Formations<sup>1</sup>



## US Fundraising in Crypto-specific VC Funds<sup>2</sup>



## Trailing 90-day VC Deal Count by Sector



Notes: 1) Formations counted as first round VC investments. Latest quarter may undercount formations because of a lag in reporting.

2) By vintage year as classified by the data source (Preqin).

Source: PitchBook, Preqin and SVB analysis.

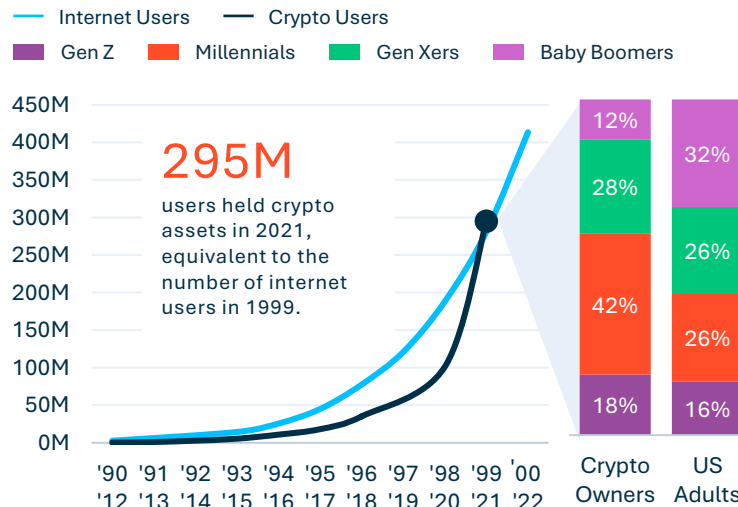
# If You Build It, Will They Come?

It's still early days in the crypto lifecycle. Compared to the early internet, crypto's 295 million global owners puts Web3 at a 1999-level of maturity. But unlike the early internet, most Web3 users are not here to build community — at least not actively. They're here to make money. One recent poll<sup>1</sup> found that 66% of crypto-holders view their assets as an investment rather than a means of exchange.

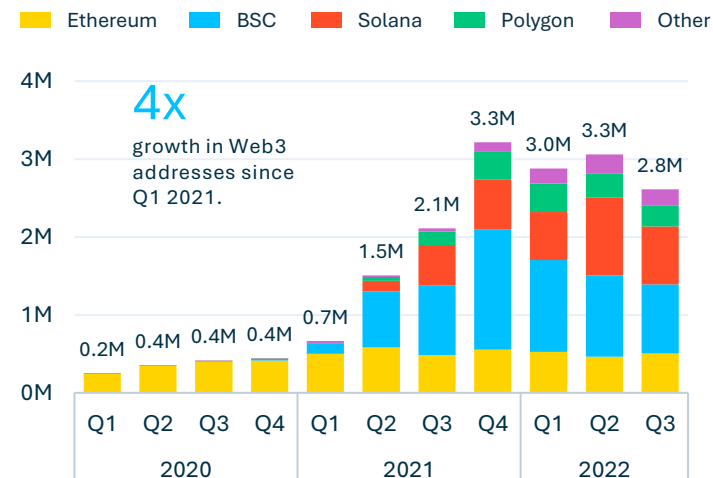
The 250 most popular decentralized apps have a combined monthly user base of 15.4 million accounts<sup>2</sup>, equivalent to Robinhood's users. Among these users, 34% play games and 26% trade assets on DeFi apps. The others are divided among NFT markets (14%), gambling apps (15%) and utility apps (10%), which provide services like domain names. Users may be split, but nearly all the wealth staked in blockchain apps goes into DeFi.

About 2.8 million addresses are active daily on blockchains as of Q3 2022. That's a 4x increase from Q1 2021, but it's down from the peak of 3.3 million in Q4 2021. With crypto assets down, some crypto owners are logging off for the so-called crypto winter by taking their tokens offline in cold wallets, which are more secure but make assets unavailable for trading, buying or exchange. In fitting with the broader tech slowdown, Web3 development activity is trending down over the last six months. The number of active developers working on blockchain projects dropped 25% from Q1 2022 to Q3 2022. The optimistic view is that so-called "crypto-tourists" are fleeing now that speculative trading is drying up, leaving a core group to build lasting value. That may be true, but a contributing factor could be layoffs. The tech employment tracker Layoffs.fyi has counted over 6,000 job losses in the crypto sector in 2022, all occurring in Q2 or later. Most notably, Coinbase, a centralized exchange, laid off 1,100 employees (18% of its workforce) in June. These layoffs could continue as the economic fog grows thicker.

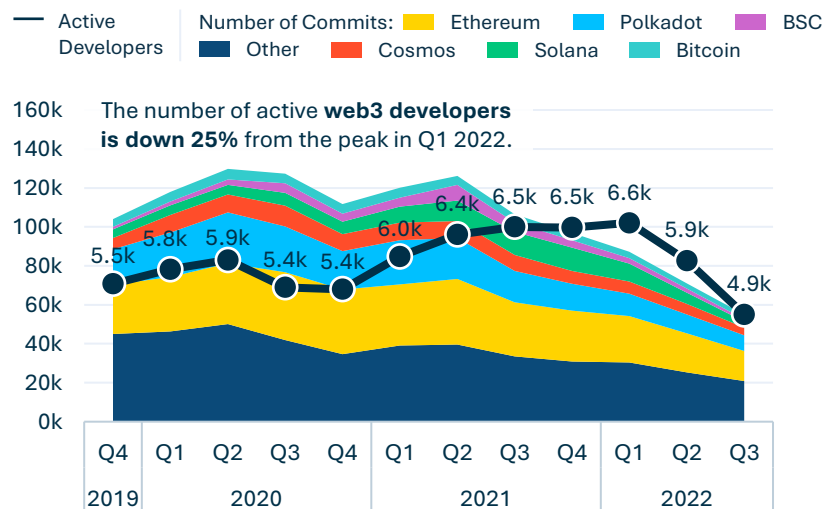
## User Adoption: Early Internet and Web3<sup>3</sup>



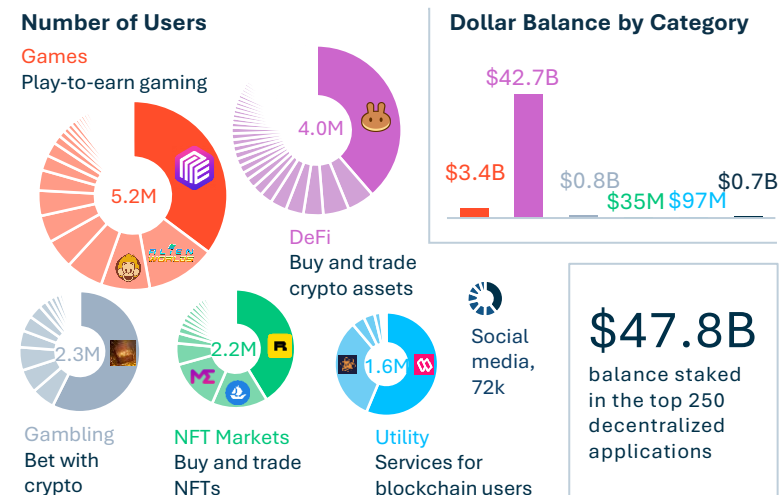
## Daily Active Web3 Addresses by Blockchain Network



## Web3 Developer Activity per Week<sup>4</sup>



## Top Decentralized Apps by Monthly Users and USD Balance<sup>2</sup>



Notes: 1) A poll of crypto owners conducted by the analytics firm Morning Consult.

2) Sum of active users on DappRadar's top 250 most popular apps. Users may overlap. Dollar balance is value of assets in a decentralized application's smart contract. 3) Estimate of unique users. 4) Average number of developers tagged to open-source repositories.

Source: Crypto.com, IMF, Morning Consult, DefiLlama, DappRadar, Artemis.xyz and SVB analysis.



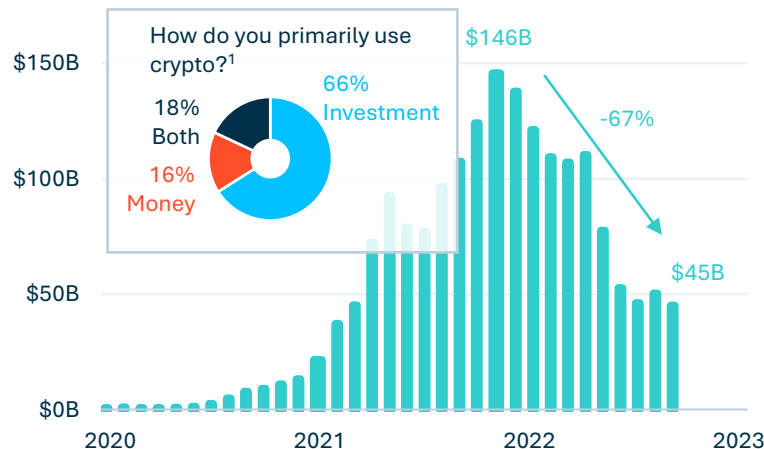
# DeFi'ing the Skeptics

The vast majority of on-chain wealth is staked in DeFi apps. These smart contracts attempt to mimic the fiat securities markets, allowing users to invest in crypto derivatives and exchange coins and other tokenized assets. Like the stock market, DeFi apps create the liquidity needed to fund the growth of other Web3 products and services that could create long-term value and drive adoption of crypto. But unlike the fiat world, DeFi is largely unregulated. Those vulnerabilities were highlighted during the recent downturn as consumers lost billions from investments in high-risk assets.

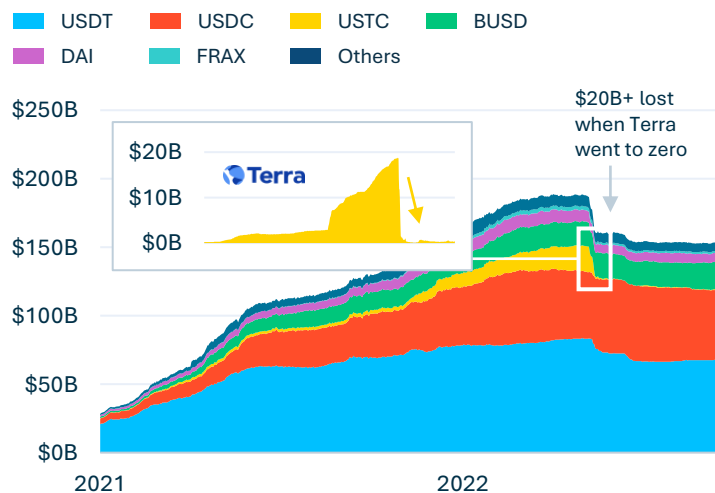
From November 2021 to September 2022, the total value locked (TVL) in DeFi platforms fell 67%. The space has been rocked by falling asset prices and the collapse of high-profile crypto projects. In May 2022, the algorithmic stablecoin Terra became unpegged from the US dollar, resulting in a cascade of other project failures. High-profile hacks, like the \$625M breach of the game Axie Infinity, have also plagued crypto, inviting greater scrutiny from regulators. A quarter of all fraud losses reported to the Federal Trade Commission (FTC) from Q1 2021 through Q1 2022 were tied to crypto.

In light of these risks, a growing faction in crypto is going beyond the call for industry standards and inviting regulations. In June 2022, a poll of crypto owners<sup>1</sup> found that 48% want crypto regulated at similar or stricter levels than other financial assets, up from 42% in January. One promising area of DeFi that could lead to broader mainstream adoption is collateralized stablecoins. Unlike algorithmic stablecoins, these asset-based coins are backed by fiat reserves. A Treasury Department report from 2021 said stablecoins like USD Coin (USDC) hold the potential to support “faster, more efficient, and more inclusive payments options.”

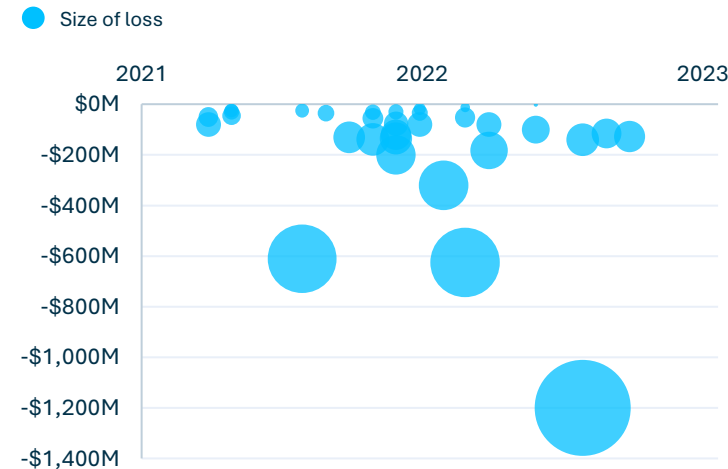
## Total Value Locked (TVL) in DeFi Platforms<sup>2</sup>



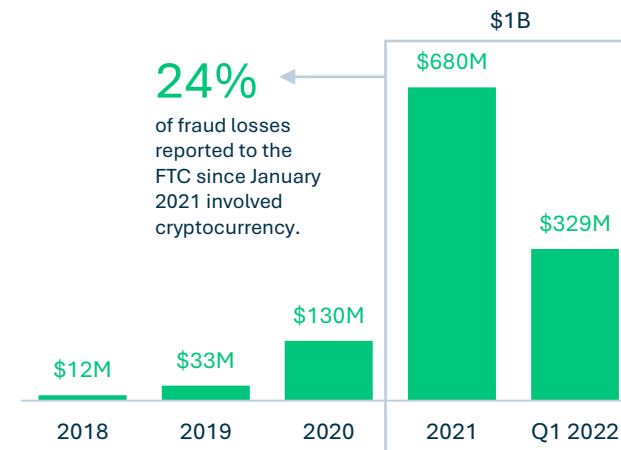
## Market Cap of Stable Coins



## Losses from Notable DeFi Hacks since 2021<sup>3</sup>



## US-Reported Cryptocurrency Fraud Losses<sup>4</sup>



Notes: 1) Poll of crypto owners by Morning Consult. Money refers to using crypto as a means of exchange. 2) TVL is the value of tokens used for lending, staking, or liquidity pool participation in a chain's DeFi platforms. The graph shows the average monthly value in Solana, Binance Smart Chain (BSC), Ethereum, Polygon, Avalanche, and NEAR blockchains. 3) Data aggregated from news reports as of 10/10/2022. 4) Based on fraud reports to the FTC's Consumer Sentinel Network.

Source: Morning Consult, DeFi Llama, Federal Trade Commission and SVB analysis.

# Corporates + Web3: Best of Frenemies

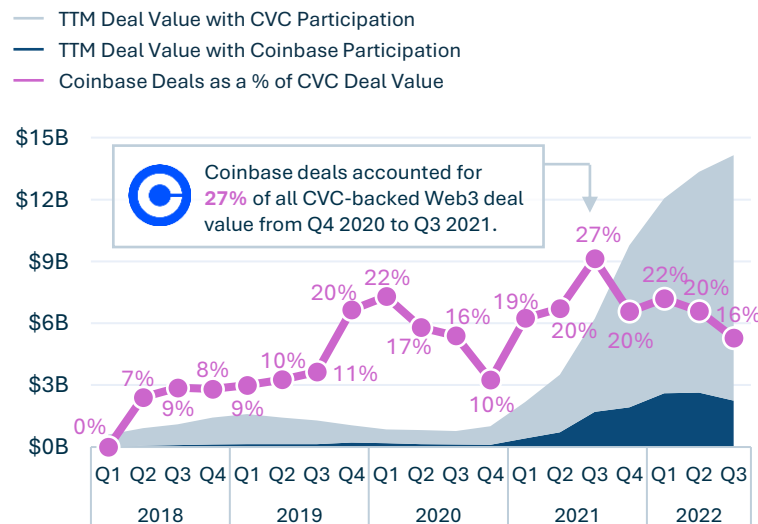
Advocates of Web3 promise a future internet like the one we have today — only better. Blockchain protocols would replace the social media apps, web browsers and productivity tools that now dominate the centralized internet, giving users more control over their data and a greater stake in the online communities where they create and consume content. For now, that egalitarian internet still remains to be built. The companies selling the hammers are the tech giants Web3 is trying to disrupt.

The most notable vendor in the Web3 stack, for example, is AWS, which provides computing services to 32% of Web3 companies, according to SVB data. LinkedIn and Google are the largest marketing vendors. Coinbase, a centralized exchange, is the largest corporate investor in Web3 startups. With these relationships in place, how decentralized can Web3 actually be? It's a core tension in the Web3 narrative. But the reality is corporations are serving as a needed bridge for crypto projects building a decentralized internet.

Corporate interest in crypto is driving development of infrastructure, compliance and risk management tools that are standardizing the space. Internal compliance requirements from large companies like Nike, for example, require vendors — including blockchain developers — to have insurance. Vouch<sup>1</sup>, a fintech company, has stepped in to underwrite crypto companies. Chainalysis, a crypto analysis company, helps combat fraud. Some of the highest-value crypto projects are those bridging tokenized products into the corporate world.



## US CVC Investment in Web3



## Notable Web3 M&A by Public Companies

Buyer	Target	Rationale
		Adds security for PayPal's cryptocurrency services.
		Provides Nike a foothold in NFTs and digital assets.
		Enhances Mastercard's fraud monitoring service for cryptocurrency.
		Grows Robinhood's crypto exchange business.
		Provides Cboe entry to digital asset spot and derivatives markets.
		Enables IDT customers to exchange crypto currencies on their phones.

Notes: 1) SVB Financial Group has an investment in Vouch. Vouch is an independent third party and is not affiliated with SVB Financial Group. 2) By number of companies using the vendor.  
Source: PitchBook, SVB proprietary data and SVB analysis.

## Notable Companies Bringing Compliance to Tokenized Finance

Company	Year Founded	VC Raised	Key Product
	2018	\$1.2B	Digital asset custody for financial institutions
	2014	\$536M	Investigation, and risk management for crypto
	2017	\$238M	Tax management platform for cryptocurrency
	2018	\$160M	Insurance for Web3 companies
	2021	\$15M	Equity management platform for tokens

## Most Popular Vendors for Web3 Companies<sup>2</sup>

	Payroll	Computing	Legal	Marketing
1				
2				
3				
4				
5				



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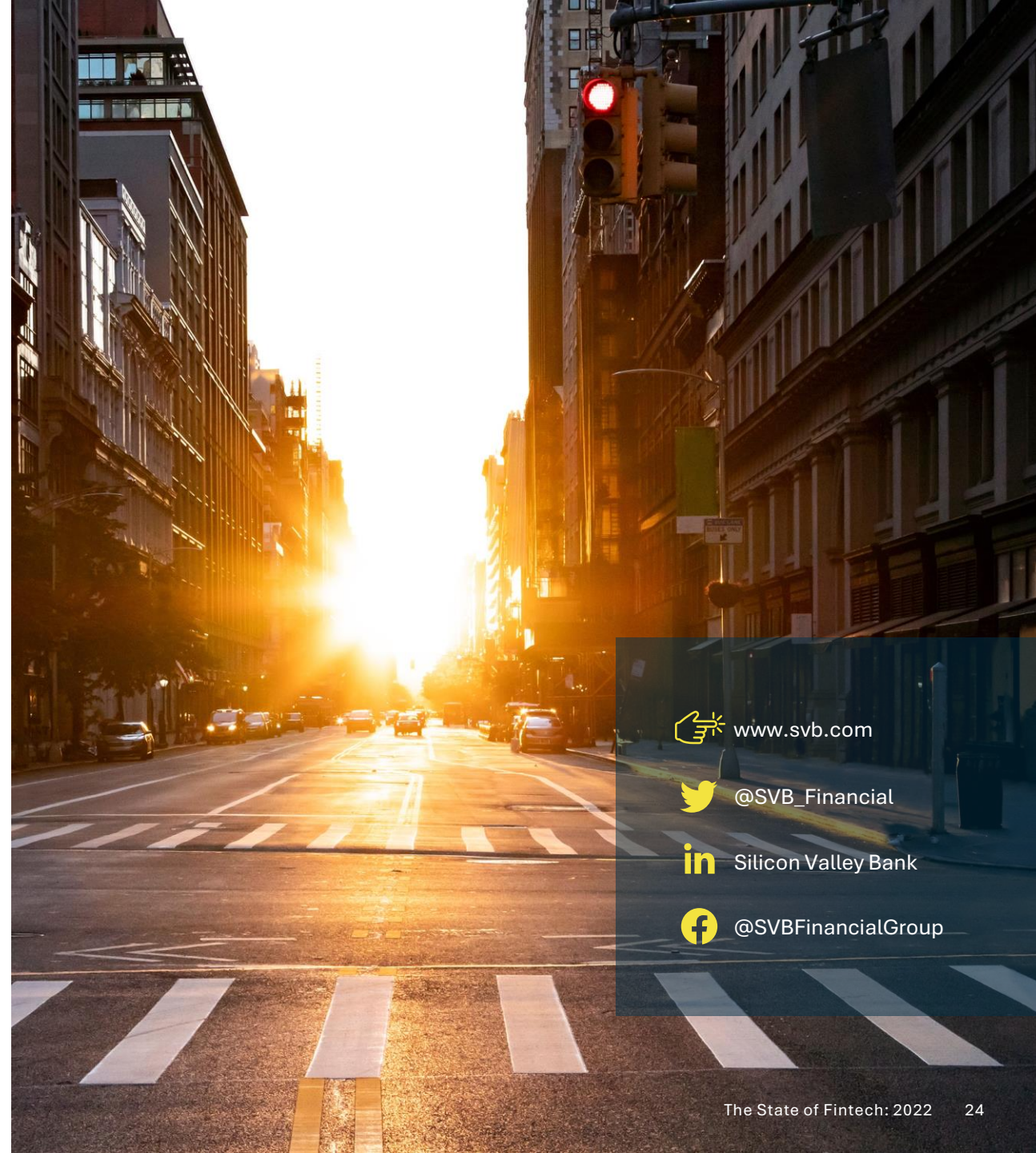



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