Investor Participation Trends in Blockchain Venture Capital

Introduction

Evanston Capital recently took a deep dive into the blockchain-focused venture capital ecosystem. We wanted to analyze the types of participants in this unique segment of venture capital and identify any key trends relating to how different types of investors have modulated their participation in this market during the cyclical ebbs and flows we've seen over the past seven years. There are many commonly held industry beliefs around the participation of various investor types at different phases of the crypto cycle and we sought to test these beliefs with hard data. For example, many think that generalist venture firms have been active participants in crypto bull markets before subsequently moving to the sidelines in crypto bear markets. Does the data actually support this view? For this analysis, we reviewed and assessed venture capital data from January 2017 through June 2023 from Crunchbase. Some of our findings are likely as you would expect, while others may be more surprising.

Who has participated and in what capacity?

From January 2017 through June 2023, there were approximately 10,000 unique investors who participated in at least one private funding round for a blockchain company or project. However, the vast majority only participated in one deal. Therefore, we believe a more credible number of active investors is somewhere closer to 1,000-2,000, depending on how you define "active." In our view, these investors can be split into four investor-type categories: Crypto-Native VCs, Generalist VCs, Strategic & Protocol Investors, and Angel Investors. We define "Crypto-Native VCs" as firms that first formed as dedicated crypto firms or crypto-focused funds within larger organizations that have sufficient history and expertise. Generalist venture firms make up the balance of investment firms in the space. "Strategics" encapsulate a broad range of businesses ranging from exchanges to crypto-specific infrastructure providers to traditional fintech firms. "Protocols" are any sources of funds linked to a Layer 1 or Layer 2 base protocol. Lastly, any individual investor falls into the "Angel" bucket. We have classified every investor who has participated in 10 or more financing rounds since 1/1/2017 into one of these four groups. The breakdown between groups is as follows:

Investor Type	Number of Rounds Participated	Percentage of Rounds Participated
Crypto-Native VC	8,369	51%
Generalist VC	3,651	22%
Strategic & Protocol	3,276	20%
Angel	983	6%

Crypto-Native VCs make up about half of the participants, with Generalist VCs and Strategics & Protocols making up most of the balance. Angels represent a small percentage, but this is somewhat due to filtering our universe down to only investors who have participated in 10+ rounds.

How has this participation changed over time?

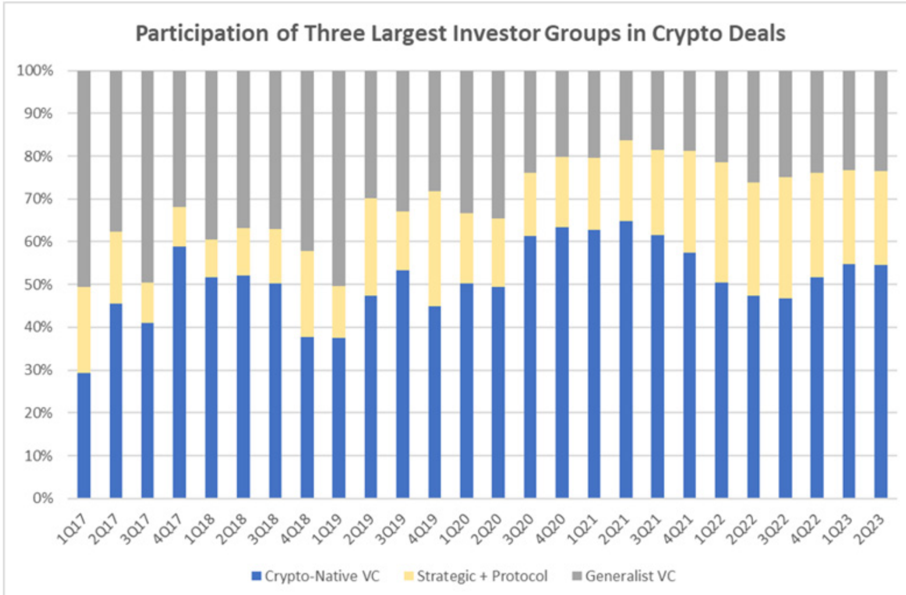
The number of unique investors increased meaningfully from 2017 to 2018, during that bull market period, then held fairly steady in 2019 and 2020, during the subsequent bear market, and finally took another dramatic leg up in 2021 alongside the last bull run. 2022 represents the peak of unique investors, though that is heavily front-loaded to the first half of the year.

Year	Number of Unique Investors	Number of Unique Investors Participating in 2+ Rounds
2017	997	288
2018	1,799	475
2019	1,590	359
2020	1,619	403
2021	4,019	1,408
2022	4,627	1,494
2023 Through 6/30/23	1,284	410

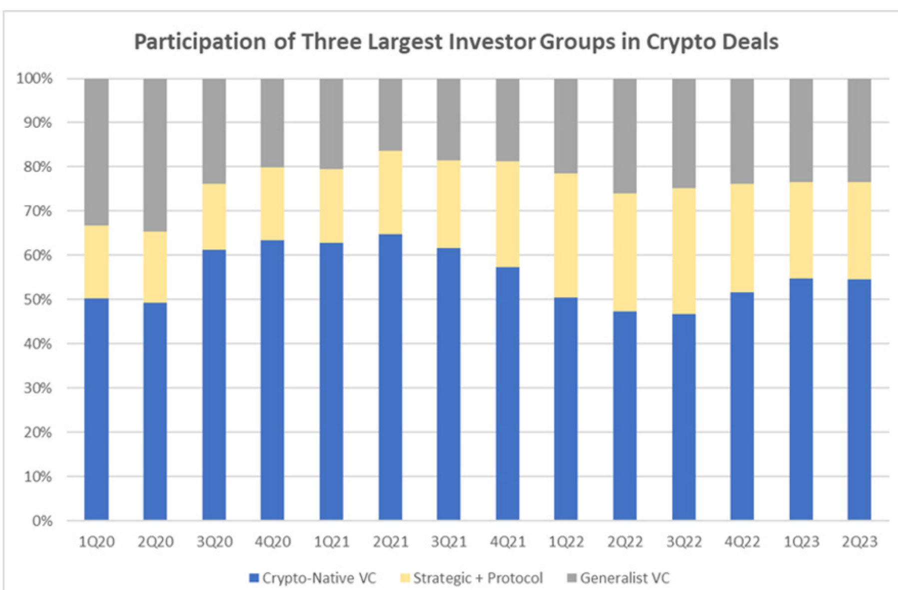
Through June 2023, the participation level is running well under the pace of the previous two years, but well above any year prior to 2021. The chart below is the same as above, with data through the first half of the year for each year.

Six Months Ended	Number of Unique Investors	Number of Unique Investors Participating in 2+ Rounds
6/30/2017	488	83
6/30/2018	1,098	281
6/30/2019	998	180
6/30/2020	812	142
6/30/2021	2,239	631
6/30/2022	3,336	1,033
6/30/2023	1,277	401

The mix of participation by investor type shows an increase in Crypto-Native VC market share over time. That share was the lowest in 2017, primarily due to there being only a handful of specialist firms in existence at that time. It crept up in late 2017 and 2018, likely as a result of the first wave of Crypto-Native VC fundraising getting completed at the peak of the bull market.



Focusing on the most recent cycle (1Q20 - 2Q23, pictured below), the counter-cyclical trend of crypto-native firms taking up a larger percentage of the volume during the bear market is clearly evident. That appears to be happening again (*i.e.*, crypto-native share is rising) as we enter what we believe are the depths of the 2022/2023 bear market, but interestingly the biggest share loser has been Strategic & Protocol investors rather than the Generalist VCs.



Shown another way, the drop-off of unique investors in 2023 versus the previous two years is particularly noticeable in the Strategics & Protocols category:

Year	Number of Unique Crypto-Native VC Investors	Number of Unique Generalist VC Investors	Number of Unique Strategic & Protocol Investors
2017	87	49	17
2018	139	87	42
2019	130	75	33
2020	164	94	38
2021	240	148	93
2022	236	145	92
2023 Through 6/30/23	163	92	43

At a more granular level, the decline in Strategic & Protocol participation is attributable to exchanges and trading firms. The chart below shows each investor type's annualized investment pace in 2023 through the second quarter divided by the annualized pace from 1Q22 (the peak quarter for crypto fundraising during the most recent bull market).

Investor Type	% of Peak
Angel	29.5%
Crypto-Native VC	27.4%
Decentralized Autonomous Organization (DAO)	16.7%
Generalist VC	28.6%
Protocol	28.5%
Strategic - Exchange	19.9%
Strategic - Other Operator	25.3%
Strategic - Trading Firm	11.5%

We believe the decline in exchange and trading firm deal volume is driven in part by the collapse of FTX and Alameda, who were among the most active venture participants, but the greater than 70% declines from peak levels reflect declines well beyond these two entities.

So, does this data contradict the narrative that the generalist "tourists" have left the space? Is the culprit in fact crypto-native firms themselves? How have generalists managed to retain market share?

To answer this question, we analyzed deal count data from Q1 2017 through Q2 2023 for subsets within Generalist VCs. We then sorted the data by Q1 2022's numbers, as that was the peak quarter for fundraising activity. The result shows patterns of activity by three distinct subsets of Generalist VC investors in the space.

The first and most active subset, ranging from 8 to 15 deals in Q1 2022, is composed of managers who first made an investment in the 2017/2018 crypto cycle. These managers continued to participate through the bear market of 2019/2020 and leveraged their knowledge and experience from earlier investments. As with every group of managers, they ramped up activity in late 2021 and early 2022, and many have maintained a healthy pace of deployment over the past few quarters, even if at a slightly muted level. None, to our knowledge, have left the space because of the current bear market. The deal count by quarter for a representative manager from this group is as follows:

Investor Type	2017				2018				2019				2020				2021				2022				2023	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Generalist VC	0	0	2	1	1	4	1	3	2	1	2	1	0	1	1	0	5	2	7	16	**15**	8	1	1	4	3

The second Generalist VC subset predominantly consists of managers who were new to crypto and blockchain in 2020 or 2021. They ramped up investment activity in the space aggressively at the end of 2021 and Q1 2022 but have slowed their activity just as quickly. Some have left the space entirely, while many others participated in only one deal in the first half of 2023. The deal count by quarter for a representative manager from this second group is below:

Investor Type	2017				2018				2019				2020				2021				2022				2023	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Generalist VC	1	0	0	0	0	0	0	0	1	0	0	1	0	0	0	0	1	1	5	6	**8**	7	0	0	0	1

The third Generalist VC subset is a random assortment of sometimes-on/sometimes-off participants, and their investment activity doesn't show much of a distinct pattern versus industry averages. As you can see immediately below, it's tough to pick out a trend in this third group of Generalist VC managers as their participation levels have been limited through the time frame except in 2022.

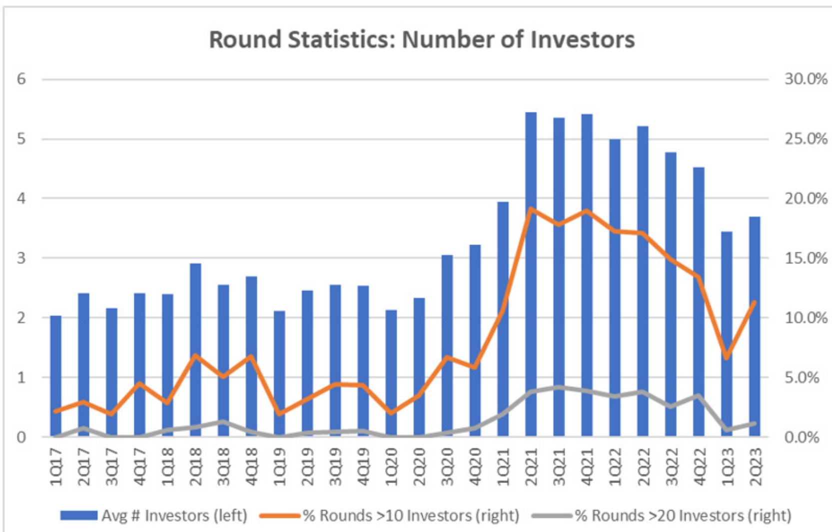
Investor Type	2017				2018				2019				2020				2021				2022				2023	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Generalist VC	2	0	1	1	4	0	0	2	0	1	1	1	1	1	3	0	1	0	1	1	**4**	0	0	3	0	0

So, have the "tourists" left? Yes, but only if you define tourists more narrowly as Generalist VCs new to crypto in 2020 or 2021 – our second subset of Generalist VC investors. Those who have been around for 5+ years have tended to stay active, albeit at a lower absolute level of activity.

What about the Angels?

Angels are a more complicated group to characterize generally given the long tail of people who have participated in deals sparingly, but some high-level stats suggest they've slowed their investing pace during this bear market. The proxy we use for angel participation is the sheer number of investors in a round under the assumption that rounds with large numbers of investors include many relatively small angel investors.

The average number of investors per round jumped in the 2021 bull market but has been on a downward trajectory since mid-2021. The percentage of rounds that included more than 10 or more than 20 participants has slowed at an even faster pace. In fact, the number of rounds through June 2023 with more than 20 investors (likely angel-heavy rounds) was only six, on pace to end the year about even with 2018 when there were 10 such rounds. Angels appear to be more "momentum" investors than the other types of investors we've analyzed. When the momentum stopped in the crypto and blockchain space, Angels substantially pulled back from investing in it.



Year	Number of Rounds with 20+ Investors
2017	1
2018	10
2019	3
2020	3
2021	72
2022	73
2023 Through 6/30/23	6

Who have been the most active participants within the primary investor types?

The most active investors within the three primary investor types are generally, as one would expect, the largest and longest-tenured investors. In the Crypto-Native VC category, it is notable that many of the most active participants are based in Asia or have a strong presence in Asia, a departure from Silicon Valley-centric tech VC. Dragonfly, Hashkey, NGC Ventures, Hashed, Fenbushi Capital, and Spartan are all examples that fit this description. The most active Generalist VCs fall into two camps – large managers and accelerators. The accelerators likely don't add up to large dollar amounts but they are a major source of inception capital. In the Strategics & Protocols area, the list of most active investors is notable for its breadth. Exchanges (Coinbase, Binance), trading firms (Alameda, GSR, CMS), protocols (Solana, Polygon), and other conglomerates (Digital Currency Group, Animoca, Consensys) are all represented.

Participating Investor (Count Through 6/30/2023)					
Crypto-Native VC		Generalist VC		Strategic & Protocol	
Polychain	180	Techstars	137	Coinbase	288
Pantera Capital	173	Y Combinator	131	Alameda Research	211
Andreessen Horowitz	173	Sequoia Capital	82	Digital Currency Group	151
Dragonfly	138	Founders Fund	81	Animoca Brands	150
Hashkey	129	Republic	70	GSR	117
NGC Ventures	127	Alumni Ventures	64	Binance	95
Outlier Ventures	123	500 Global	62	CMS	92
Hashed	113	Bossanova Investimentos	61	Polygon	89
Fenbushi Capital	108	FJ Labs	60	Solana	88
Spartan	106	Tiger Global Management	58	ConsenSys	87

Conclusion

Despite the overall slowdown in deal volumes, our analysis of the data shows that the VC firms with several years of experience investing in the blockchain and crypto space remain committed. This has been true across both Crypto-Native VCs and Generalist VCs, suggesting that longevity in the space is a better predictor of a manager's ongoing participation through cycles than whether their sole focus is on crypto. Those investors who only started to invest in the space in 2021 as well as weakened Strategics and Angels account for a disproportionate share of the decrease in funding round participation. Overall, we think there is some truth to the adage that the "tourists" have left crypto, but over-extended "non-tourists" are a factor in the funding decrease as well.

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