forum ventures

Create
Accelerate
Fund

INVESTOR SURVEY + REPORT

State of the Pre-seed and Seed VC Market

2023 Projecting to Q1 2024

Venture Studio | Accelerator Program | Seed Fund

Introduction

As we navigate through an era of unprecedented technological growth, the startup and VC landscape is going through a massive reset. This report is born out of an understanding that, whether you're an up-and-coming entrepreneur or a veteran investor, getting a clear picture of the investment climate is vital. We aim to cut through the complexities and give you a real-time snapshot of what's happening amid a fast-changing investment landscape.

By surveying 70 funds, and analyzing data from 167 closed pre-seed and seed rounds between January and October 2023, this report provides a comprehensive overview of the current state of the B2B SaaS investment landscape. Participants included Partners (54%) and Associates (11.6%) from funds including Outsiders Fund, High Alpha, Right Side Capital Management, B Capital, Atento Capital, Slauson & Co. and Female Founders Fund, among others.

70+

VCs were surveyed who participated in early-stage fundraising rounds in 2023

54%

Partner+ roles

167

Closed rounds from Jan - Oct 2023 represented.

> **"This is undoubtedly one of the hardest fundraising environments I've seen in the last 10 years. It has affected both investors looking to deploy capital and raise from LPs, as well as founders looking to raise capital to accelerate their pre-seed startups. Founders rarely get access to transparent advice from investors on making their startups stronger to raise capital more successfully. This survey collects sentiment straight from the source…providing founders with actionable advice and insights into the investment decision-making process."**
>
> -Mike Cardamone, Managing Partner at Forum Ventures

This report is more than just numbers and statistics; it delves into the heart of what drives investment decisions today, what constitutes a successful founder in the eyes of investors, and the nuanced dynamics of Diversity, Equity, and Inclusion (DEI) in investment strategies. It also seeks to offer practical guidance for founders navigating the challenging terrain of raising capital and building a sustainable business in these transformative times.

Let's dive in.

Approach

We surveyed 70 VCs over a 2-week period who are actively investing in early-stage (Pre-seed and Seed) startups. Survey participants self-identified as having participated in at least one round between January- October 2023. Data was only collected from the most recent 3 closed rounds they participated in.

70+
Active VCs Surveyed

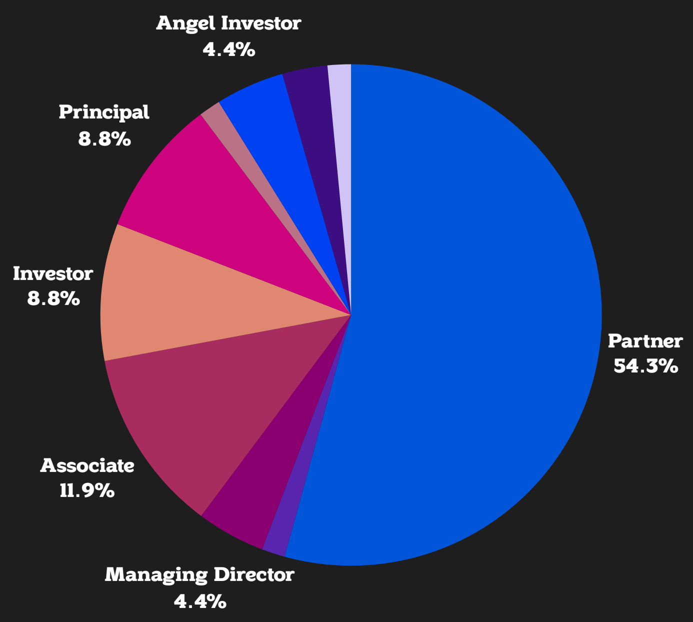
167
Rounds Captured

$65M
Median AUM

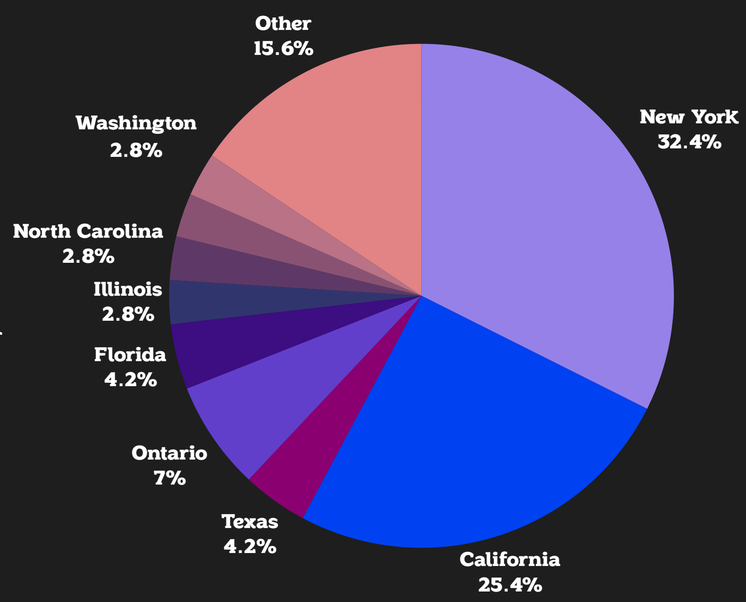
88.7%
US Pre-seed and Seed funds

Respondent Demographics

JOB TITLE



STATE/PROVINCE



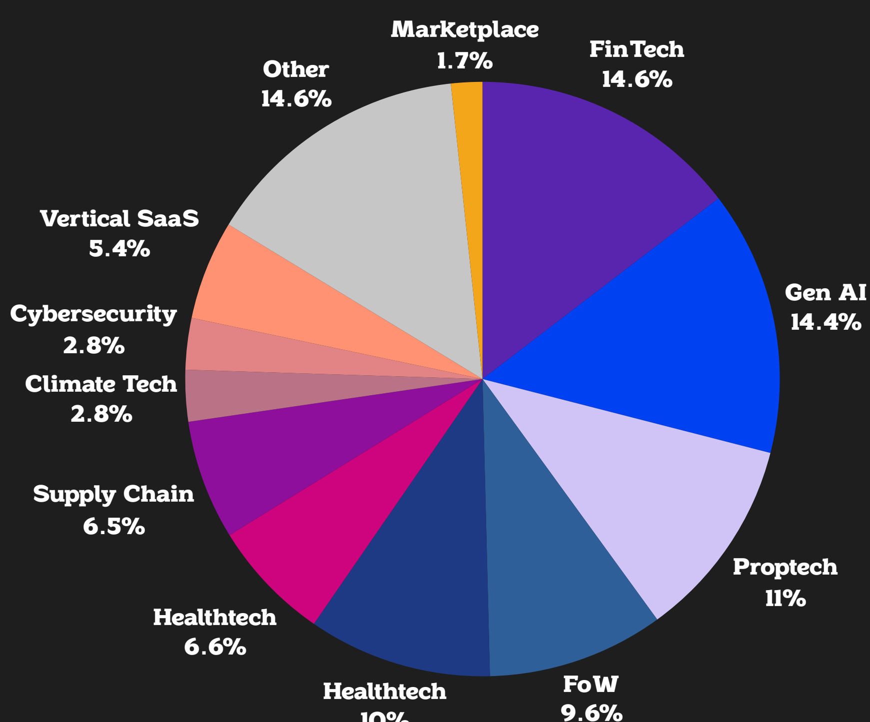
Industries

Not surprisingly, the most common industries invested in include Fintech (14.6%), Gen AI (14.4%), and Proptech (11%), followed by Future of Work (9.6%), Healthtech (6.8%) and Supply Chain (6.5%).

The investment world is always changing, and AI investments are no exception. At first, AI startups, especially in Generative AI, were riding high on the wave of AI's potential to revolutionize various sectors. But as large AI providers like OpenAI, Microsoft, Zoom, and Google have started to enhance their offerings by creating more integrated and comprehensive solutions, like the recent announcement for GPT-5 to launch in 2024, the extraordinary valuations for startups relying on third-party AI models have started to decline. We can see this reflected in the survey data, where the 21 GenAI companies invested in had a median valuation of $8M, which is significantly lower than the overall median valuation of $10M (more in the “Valuation” section on page 8).

Although early-stage valuations may remain high for a while, a more realistic and sustainable approach to valuing these companies is on the horizon. Despite these shifts, there is still a significant opportunity for AI to disrupt and innovate in industries that are yet to undergo significant digital transformation.

INDUSTRIES INVESTED IN



Source: Forum Ventures, State of the Market Survey 2023

Aside from AI, investors are increasingly interested in startups in industries like PropTech, Healthcare, and Supply Chain that are solving real, tangible business and societal problems. Supply Chain technology, for example, is being recognized as an industry ripe for innovation after exposed vulnerabilities post-pandemic and an increased adoption in digital transformation.

While it only made up 6.7% of total investments in this survey, it highlights the critical need for innovation in logistics and distribution systems like outsourcing, sustainability, and labor automation. Broader funding data supports this trend. Between 2018 and 2022, global investors poured more than $50B into supply-chain-related companies, per Crunchbase data.

Although there is a clear need for new supply-chain technology, we anticipate the impact of recent downstream failures – unicorn Convoy shutting down due to a “massive freight recession”, and unicorn Deliverr sold at a fraction of former acquisition price – will create more cautious investing at the early stages.

Tech Hubs: Geography

Even though technology is globalized and startups are popping up everywhere, most investments still go to the big tech hubs. The San Francisco Bay Area, a longtime tech hub, led with 25% of the investments in this survey. New York City (21.3%) came in a close second, reflecting its status as a vibrant and diverse hub for tech startups.

But the investment landscape is changing. Other cities are emerging as major players, each carving out its own niche in the tech ecosystem. Toronto (7.3%) is a prime example of this, highlighting Canada's growing prominence in the tech world. Chicago (3.9%) is also emerging as a critical center for tech innovation in the Midwest. Miami (7%), Los Angeles (5.1%), and Austin (2.2%) are also notable, demonstrating the spread of tech investment beyond the traditional Silicon Valley and East Coast corridors.

Note: Respondents from this survey were mostly based in the USA (88.7%) and Canada (7%).

This geographic diversity in investment distribution underscores a broader trend: while major tech hubs continue to dominate, the more distributed workforce that came out of COVID has helped to democratize where companies can be built and therefore funded moving forward.

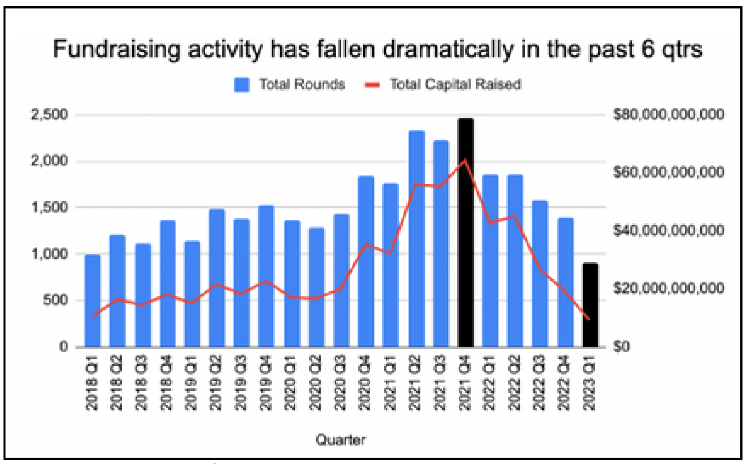
Deal Trends and Investment Pace

The trends in deal flow and valuations in the B2B SaaS sector paint a multifaceted picture. When it comes to the pace of deal flow, the data indicates a diverse landscape: 31% of respondents observed a slowdown, and 35% witnessed an acceleration with 34% noting no significant change. This does show a more optimistic outlook from the 2022 survey, where >50% of respondents reported a slow down in investment pace. Contrary to the doom-and-gloom reporting from mass news outlets, deals are still getting done, and good companies can materialize through all sorts of financial climates.

31%

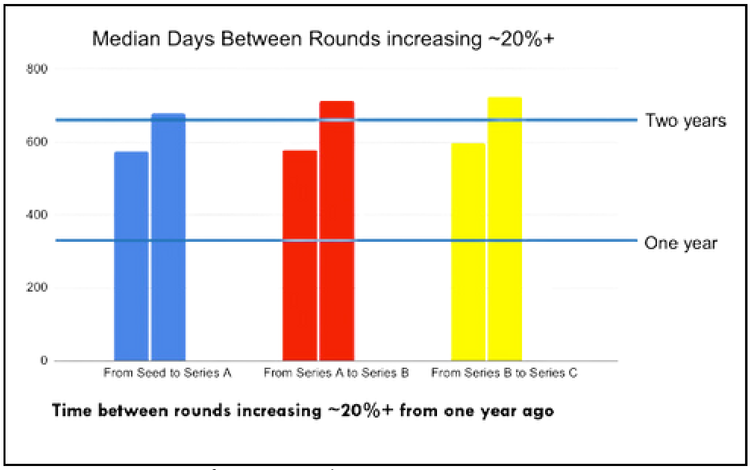
of respondents observed a slowdown in deal pace vs 50% in 2022

We can see from the survey that investment strategies across funds are varied. Some firms are using the downturn to take a more passive, risk-averse investment approach, and focusing on the investments currently in their portfolio to help them come out stronger to raise in the next year, while others are taking advantage of less competition to double down on their investment pace. This inconclusiveness suggests a sector experiencing varied impacts across different markets, regions, and overall appetite for risk.



Source: Carta, State of Private Markets: Q2 2023

Wider market sentiment confirms that fundraising activity has fallen dramatically. According to Carta, the total rounds raised fell 64% and total dollars raised fell 86% since the peak of Q4 2021. Capital is no longer as easily available as it once was.



Source: Carta, State of Private Markets: Q2 2023

Median time between rounds has also increased by 20% from one year ago, where the timeline from Seed to Series A is about 2 years. This means that it's going to take longer to get the necessary proof points and it's going to take longer to fundraise. Founders need to practice financial discipline and prioritize the customer to survive.

Cited reasons for slower deal pace	Cited reasons for sped up deal pace
• Decreased willingness to take risks due to later-stage funding uncertainty • General market dynamics slowing down capital deployment, and decreasing active sourcing efforts so they can wait longer to go out to raise their next fund • Increased time on Due Diligence processes for both the lead and follow-on funds • Founders are slower to gain traction. Customers experiencing inflation are spending less on software.	• Fewer people investing now, and many firms are using the downturn as an opportunity to double down on investing with less competition • More inbound due to an increased number of companies raising • In the UK and EU, the pre-seed market seems to be recovering • More well-known brand

The investment environment has grown more challenging, prompting a shift in strategies. There's a noted increase in collaboration among seed investors, more inbound activity, and a trend toward more active deal sourcing. Less capital being available, and the increased supply of companies seeking funding has reduced the urgency to close deals swiftly.

Furthermore, the number of seed and pre-seed rounds is declining due to factors like economic instability, and the need for more bridge rounds than initially anticipated. Even startups that demonstrate real utility and value are facing emergency raises due to running out of cash. Despite these challenges, some sectors, like the pre-seed market in the UK and Europe, are showing signs of recovery.

The market is uncertain, interest rates are going up, and the general market is in flux. This has led investors to be more cautious with their money, and they're doing more due diligence before investing. The gap between what companies are asking for and what investors are willing to pay has narrowed, and there's been an increase in extension rounds and internal bridge rounds. This cautious approach is also reflected in the slower pace of investment, which shows that investors are being more measured and strategic.

> **I've noticed rounds staying open much longer, by many weeks, than what was true in 2021 and even early 2022. This has enabled emerging managers to focus more time, attention, and investment skill on diligence, hopefully leading to a period of higher discretion, which could potentially result in 2023 and 2024 as being very strong vintages in terms of returns to LPs.**
>
> - Winter Mead, CEO of Coolwater Capital

Valuations

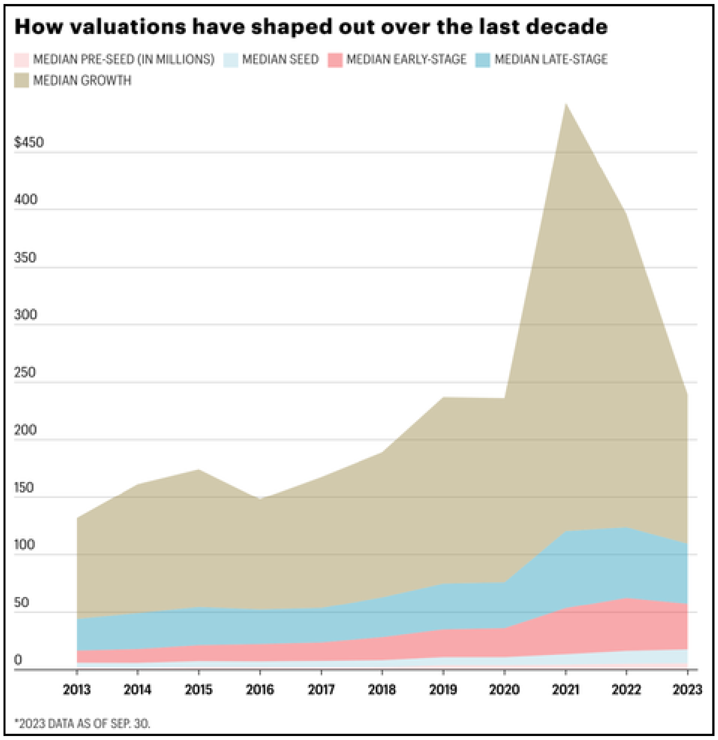
The valuation landscape for startups in 2023 is witnessing a significant shift, with 75% of respondents noting a decrease in valuations since 2022. This trend, influenced by broader economic factors and a more cautious investment stance, is also reflected in investment patterns across various stages of startup development. Of the 167 rounds analyzed for this survey, 37% were pre-revenue, 34% had $0-250K in Annual Recurring Revenue (ARR), and 27.6% with more than $250K ARR. Although most early-stage rounds were done post-revenue, this data still indicates an optimistic view for pre-revenue founders looking to secure their first round of capital.

75%

of respondents noted a decrease in valuations since 2022

Traction	# Deals*	Median Valuation USD**	Average Valuation USD
Pre-Revenue	63	$9M ↓ 10% YoY	$10.1M
0-250K ARR	55	$9M ↓ 10% YoY	$10.4M
250k+ ARR	43	$15M ↓ 6.2% YoY	$16M

*Some respondents opted not to share traction or valuation data on all of their rounds
**YoY calculated from data between respondents from 2022 survey to respondents from 2023 survey

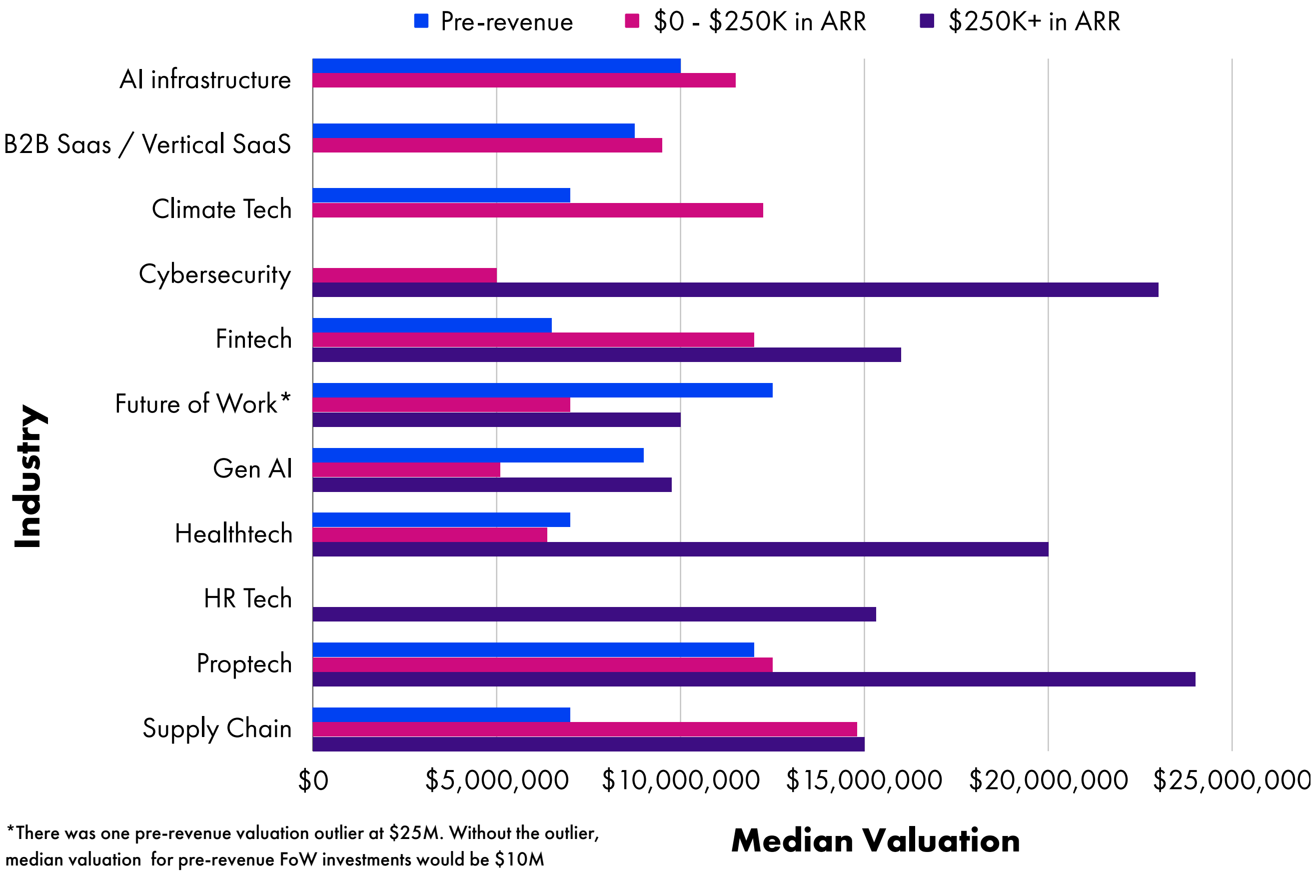


Source: Pitchbook

Carta data and Pitchbook insights show that the median post-money valuation cap for SAFEs has dropped from $15 million at the beginning of 2022 to $10 million in recent quarters. This decrease is even more noticeable for raises between $250K-$499K, where the median cap fell to $6.5 million.

The survey reflects this, where the median post-money cap for all captured rounds was $10M. The figures above suggest that investors are taking a more conservative approach to valuing early-stage startups, and are placing a greater emphasis on investment quality and potential.

Median Valuation vs. Traction Per Industry



*There was one pre-revenue valuation outlier at $25M. Without the outlier, median valuation for pre-revenue FoW investments would be $10M

Industry	# Deals*	Median Valuation USD	Avg Valuation USD
Fintech	22	$12M	$11.7M
Gen AI	21	$8M	$12.2M
Future of Work	16	$10M	$10.5M
Healthtech	15	$11M	$12.6M
Proptech	15	$13M	$14.5M
B2B SaaS/ Vertical SaaS	11	$10M	$10.5M
Supply chain	11	$10M	$10.8M
Cybersecurity	7	$20M	$15.9M
Climate Tech	5	$7.5M	$13.5M
AI infrastructure	4	$11.5M	$11.6M

*Some respondents opted not to share traction or valuation data on all of their rounds

Despite 2023 posing challenges for many startups, there is still a silver lining. Quality companies with strong product-market fit and clear growth prospects continue to secure funding. After all, some of the strongest performing companies of our generation — Uber, Lyft, Airbnb, Pinterest, Snowflake, Slack, Square, and many more — emerged and received funding during a downturn.

> **"The valuations still aren't lower than they were four years ago: They've simply come back down to earth."**
> - Jessica Matthews, TermSheet

The data suggests a shift towards more selective and strategic investments, with a focus on startups that are solving real, venture-scale problems and demonstrating early proof points. The recalibration in the startup ecosystem is also leading to expectations of down or flat rounds, particularly for unicorns, with valuation increases becoming rare and mostly reserved for exceptionally growing companies.

> **"As an investor, we see a continued reduction in prices on a near-term basis as many firms pull back in deployment due to uncertainty and continued pressure to recorrect deployment schedules. In addition, we believe there will be some washout amongst early-stage firms which will reduce the overall capital allocated to investing at the early stage."**
> - Teddy Seem, Partner at Outsiders Fund

Headwinds	**Tailwinds**
• Delayed Liquidity window: Companies are taking longer to mature because they are facing more challenges, such as supply chain disruptions and rising inflation. • There are fewer M&A opportunities and IPOs because investors are more cautious about making new investments. • Exit valuations are lower because companies are not growing as fast as they were in the past. • Investors need more positive outcomes across their portfolios because they are taking on more risk. • Startups are failing at a higher rate because they are facing more challenges, such as the current market conditions	• Lower entry point at the seed stage, with valuations coming down. It is now cheaper to invest in early-stage companies, as their valuations have decreased. This could be a good opportunity for investors to get in on the ground floor. • Higher chance of companies maturing into a bull market. • Opportunity for investors to find undervalued companies that have the potential to grow and succeed in the future.

Knocking at the Glass Ceiling

The landscape of diversity in pre-seed and seed venture capital investments reveals a significant gap in funding for women, non-binary, BIPOC, and LGBTQ+ founders. The survey data highlights this disparity:

- Only 9.4% allocated over 50% of their investments to female+ founders
- 45% of respondents had less than 25% of their investments in BIPOC founders
- 63% of respondents invested less than 25% in LGBTQ+ founders

70%

of respondents indicated less than 25% of recent investments in underrepresented founders (BIPOC, women/non-binary, LGBTQ+)

While these numbers are nowhere near where they should be, they are orders of magnitude beyond what the broader industry data is showing. Survey respondents, largely from emerging and smaller funds, are investing in underrepresented founders at a higher percentage than the broader data. This could represent early signs of hope for change, as these companies may scale into larger rounds and help to change the broader trends. If these companies are successful, they can help to break down the barriers that have historically prevented underrepresented founders from accessing capital. This can lead to a more diverse and inclusive startup ecosystem, which can benefit everyone.

The statistics above, coupled with broader industry data are situated within a wider context of recent discriminatory policies impacting the bodily autonomy of LGBTQ+ people and women, which could further exacerbate funding challenges. TechCrunch reports that Black founders raised merely 0.13% of all capital allocated to U.S. startups in Q3, a stark decline from previous quarters. This drop is part of a trend that has seen funding to Black founders consistently decline since 2020. Despite the overall dip in venture capital funding, BIPOC founders are being disproportionately affected, underscoring a continued bias in the ecosystem.

In response to these challenges, diverse founders are increasingly looking to align strategically with mission and impact-driven investors. Overcoming biases and closing the funding gap requires a concerted effort, not only in terms of capital allocation but also in fostering an inclusive and equitable investment ecosystem. There is a necessity for continued and enhanced efforts to support and invest in diverse founders, particularly in an environment hesitant to take chances on first-time founders who are more likely to bring diverse perspectives and innovations.

Conserve Cash

IIn the current market, startups should prioritize preserving cash and exploring alternative avenues of funding as the next 6-12 months are projected to be difficult to raise. Founders should consider internal bridge funding to keep their companies afloat until they can raise more capital on better terms. This will help them preserve equity and emerge stronger when the market improves.

Venture capital funding is getting harder to come by due to a combination of economic instability, later-stage funding uncertainty, and a crowded fundraising environment. Investors are advising founders to start fundraising earlier, be more resourceful, and stretch their capital as far as possible. Being "scrappy" is essential in this economy.

Michael Basch, Managing Partner of Atento Capital commented “Get in front of it. Don't wait until the last minute” when asked about advice for pre-seed and seed founders looking to raise capital, and he is “worried [that] the worst is yet to come.”

There are a lot more founders looking for funding these days, but fewer venture capitalists are deploying capital. This mismatch means that investments are happening more slowly, and there's more competition for the limited pool of available capital. The market is expected to get even more saturated by Q1 2024, as companies that are running out of cash compete for funding. This all means that it's more important than ever for startups to have a strategic financial plan and explore different ways to fuel their growth and sustainability.

> **"With increased bridge rounds, down rounds, and shutdowns, Seed-stage startups are facing increased challenges in reaching the Series A (now 24+ months from Seed to A). My advice is to effectively cut burn and manage spending in order to survive the coming quarters. Increased focus on fundamentals and profitability for all stages. "**
>
> - Adrianna Samaniego, Partner at Female Founders Fund

Revenue is King

In the current fundraising landscape, the ability to generate revenue has become more than just a survival tactic; it's a critical factor for securing future rounds of capital. Startups must increase focus on customer acquisition and retention. Revenue generation not only demonstrates a viable business model but also builds investor confidence. As Mark Friday, Managing Director of Cathexis Ventures put it, “First-time founders should focus on business models which can become profitable very early without requiring investor capital.”

The goalposts have also shifted slightly where a pre-seed round needs to show similar proof points as a Seed round did a couple of years ago. Even at the pre-seed stage, investors want to see some revenue, whereas previously they might have just needed to see a pitch deck and a solid team. Investors now want to see that founders have a built product or MVP with some initial design partners. At the Seed stage, investors now want to see early customers and signs of repeatability when it comes to the GTM motion. Depending on the vertical, this could mean $200K+ in ARR.

> **"Founders need to find early PMF, get to $1.5M+ ARR at 100%-200% YoY growth to get a good Series A term sheet."**
> - Michael Kocan, General Partner at Outbound Capital

> **"Be profitable as soon as you can. This is a highly unprecedented time so it's important to make the cash you have work for you. Early-stage founders should be spending their time identifying valuable additions to the cap table versus meeting their valuation expectations."**
> -Katie Kopan, Investor at High Alpha

Particularly for those eyeing Seed and Series A funding, setting and achieving ambitious revenue targets is essential. Founders need to establish early product-market fit (PMF) and aim for a significant annual recurring revenue (ARR), ideally exceeding $1.5 million with a year-over-year growth rate of 100-200%. This level of performance positions them favorably for a strong Series A term sheet. Generating and scaling revenue is not only a measure of business success but also a critical step in the journey toward substantial venture capital investment.

WHERE YOU NEED TO BE AT EACH STAGE

	Pre-seed	Seed	Series A
Revenue	Post Revenue	$0-1M ARR	$1.5M-4M ARR
Product	MVP built - early users	Small group that loves your product	80-150% Net retention
Growth	First users	Organic/Referral preferred	Scalable revenue engine
Goal with funds	Product engagement with a small audience	Discover your growth engine	3x-5x revenue in 18 months

Get the "Yes"

It can be difficult to know what goes on behind the scenes during investor decision making. In this survey, investors cited a variety of factors that they believe founders must demonstrate, besides product-market fit and revenue:

FOUNDING TEAM AND CHARACTERISTICS

Grit:
Perseverance and resilience. Founders with grit indicate an ability to overcome challenges, adapt to change, and persist despite setbacks. Grit suggests a deep commitment to long-term goals and the determination to realize a vision, essential qualities in the unpredictable world of startups.

Clear Vision:
Having a well-defined idea of what the company aims to achieve, its long-term objectives, and how it plans to disrupt or contribute to its market. An ability to understand and address specific market needs effectively. Clearly articulate not only what their company does but also the broader impact it seeks to make.

Execution Ability:
A strong, dynamic founding team with deep domain expertise, resilience, and the ability to build, scale, and sell efficiently. Founders must demonstrate coachability, determination, and a strong track record. The ability to recruit a talented team, delegate effectively, and show decisiveness.

"Not being an asshole"
Having confidence in your product doesn't mean you have to be arrogant or disrespectful.

1. **Deep domain expertise for the problem they are solving**
2. **A clear explanation of "why now" and why this problem hasn't bee solved before; and**
3. **What unfair advantage they have for their company**

DEEP UNDERSTANDING OF THEIR ICP

Customer Engagement and Feedback:
Evidence of in-depth customer discovery, strong customer references, and positive user feedback is critical. The team is highly customer-obsessed through continuous validation. Investors want to see proof of the problem being solved and behavioral patterns that validate the product.

Social Impact and Problem-Solving:
Companies that demonstrated a clear understanding of the problem they were solving, especially those with a social impact, attracted investor interest.

KNOWLEDGE OF THE MARKET

Market Potential:
The scalability of the business model, the size of the total addressable market (TAM), and the potential for significant market impact. This shows potential to become category leaders with differentiated products.

Business Model and Financial Acumen:
Efficient use of previously raised capital, clear financial planning, and capital discipline are key. Investors look for startups with defensible business models and strong unit economics. The ability to demonstrate measurable goals, a solid short to mid-term plan with strong milestones, and a realistic path to a large outcome are vital.

Market Understanding:
Founders must have a clear and compelling go-to-market (GTM) strategy and a thorough understanding of the market. This includes knowledge of current fundraising market conditions, a realistic assessment of future funding rounds, and a clear explanation of why now is the right time for their solution.

Unique Advantages and Product Market Fit:
An unfair advantage such as unique data access, uniquely solving a highly painful workflow, a novel technological approach, or a strong network is highly valued. This could include a proprietary technology, intellectual property, or a creative customer acquisition strategy. Know what makes you and your team unique and will allow you to turn cycles faster than your competition.

1. **A realistic assessment of metrics needed to hit before a future round can be raised**
2. **Capital discipline and efficiency**
3. **Realistic path to a large outcome with current market constraints**

KNOWLEDGE OF THE INVESTMENT LANDSCAPE

Round Dynamics:
The involvement of other reputable investors instills confidence. The dynamics of the funding round can also impact a decision if the cap table is full or doesn't have room for competing terms.

Capital Efficiency:
The ability to use capital efficiently, and be scrappy with their resources. Investors are looking for companies that can achieve more with less.

Investment Terms and Cap Table:
Right-sized expectations in terms of amount and valuation based on market dynamics. A well-structured investor cap table, and clarity on past and future valuations are important.

Tips for Founders

Founders looking to raise capital in the next 6 months need a strategic and pragmatic approach. Below are some tips to help you extend your runway and raise capital successfully.

- **Focus on internal Strengths:**
  Build a great product that uniquely meets customer needs. This not only attracts customers but also capital and talent.

- **Raise more than you initially think is necessary.**
  Aim for a runway of 24 months while managing cash flow meticulously. Bootstrap in the early stages, until initial experiments yield promising results. Stretch capital, be scrappy, and achieve quick returns on investment for customers.

- **Treat fundraising like a sales process:**
  Start early and set realistic expectations. Be prepared for longer fundraising cycles and potential down rounds, remaining adaptable to market conditions.

- **Be flexible with valuations**
  Prioritize investor fit over high valuations. Valuations will likely never return to 2021 levels, and during a down market, founders should rightsize their expectations.

- **Create a broad investor search**
  Founders should be pitching to 200+ VCs to maximize opportunities.

- **Emphasize profitability and a path to revenue**
  Focus on efficiency, and the fundamentals of your business models. Solve fundamental needs and expand product offerings over time.

- **Achieve early product-market fit**
  Conduct deep customer discovery to understand the customer pain points, and creating a product that solves those pain points efficiently.

> **“Be scrappy, tap into communities for customer acquisition, iterate with design partners, don't build just to build a product. Customer feedbacK every step of the way is everything."**
>
> \- Mili Raina, Investor at Crossbeam

Conclusion

The current state of the pre-seed and seed VC market reflects a period of transition and recalibration. Both investors and founders need to navigate this landscape with strategic prudence, adaptability, and a focus on sustainable, impactful growth. As we move forward, the ability to adapt to these changing dynamics will determine the success of startups and the vitality of the venture capital ecosystem in the coming years.

For investors active in the pre-seed and seed market during this period, a strategic and cautious approach is essential. The current climate, with the pre-seed market showing signs of recovery while later stages continue to face downturns, requires a nuanced understanding of market dynamics and risk assessment. Being an active investor can make a significant difference in these challenging times. Offer more than just capital; provide mentorship, strategic guidance, and network connections to help startups navigate through the downturn.

For founders building SaaS product and looking to raise in the next 6-12 months, focus on building from a place of strength, be scrappy with your resources, and look for non-dilutive sources of capital to extend your runway until you can raise your next round. Remember, despite the media narrative, companies are still getting funded, and rounds are still being closed, even if they are happening at a slower pace. Stay patient, grow your network and continue to build products that solve deep customer needs.