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Galaxy Digital Research

2021: Crypto VC's Biggest Year Ever

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Last year, venture capital firms invested more money into startups building in the crypto & blockchain technology sector than all prior years combined. Companies facilitating digital assets trading or building in the Web3 segment raised the most.

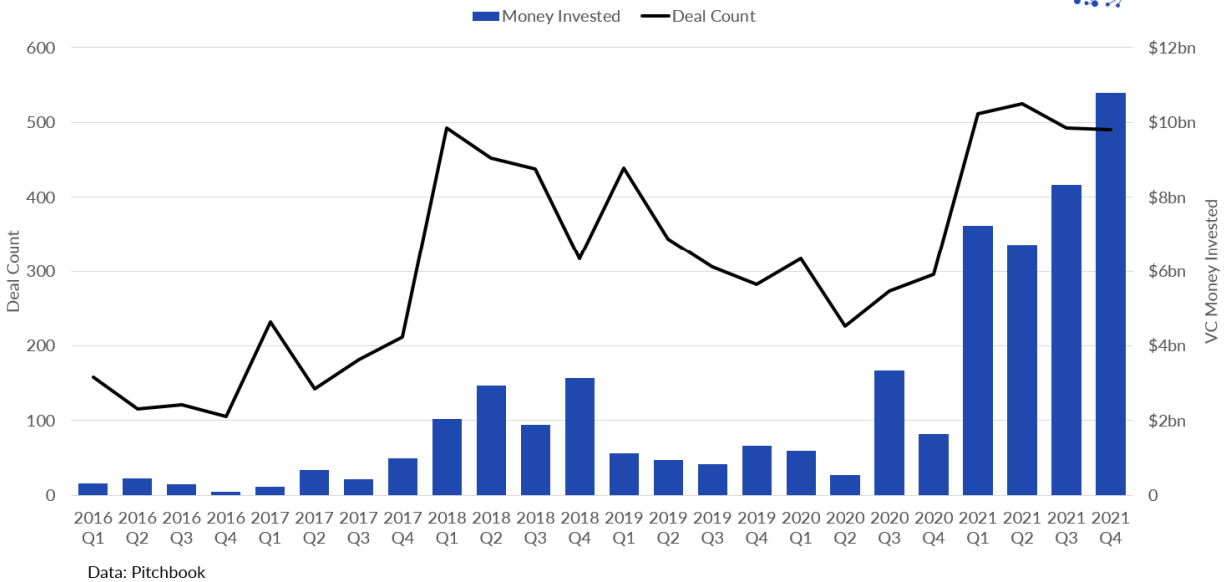
Key Takeaways

- Venture capitalists invested more than $33bn into crypto/blockchain startups in 2021, more than all prior years combined. $22bn of that total (67%) went to fundraising rounds with deal sizes above $100m. Crypto/blockchain startups received almost 5% of venture capital deployed in 2021.
- Valuations in the crypto/blockchain space were 141% higher than the rest of the venture capital space in Q4, highlighting a founder-friendly environment and the intense competition among investors for deal allocations. Deal sizes were elevated but comparable to the rest of the VC landscape.
- At least 43 companies that raised venture capital in 2021 are unicorns. Pre-Seed deal counts continue to decline while Series A and later are growing, a sign that companies built in the 2018-2020 crypto bear market are maturing to later stages.
- Companies offering trading, investing, exchange, and lending services to digital assets investors led the pack with more than 41% of the capital share, but startups building in the NFT, Web3, DAO, and Metaverse sub-sectors came in second with 17% of the capital allocation.
- Crypto focused funds are larger than they've ever been, and 62% of managers that raised in 2020 also raised new vintages in again 2021.

More Money Invested than All Prior Years Combined

With more than $10.5bn invested in Q4, 2021 reached an all-time high of VC investment in the emerging crypto and blockchain sectors at $33.8bn, 4.7% of all venture capital invested that year. Last year was also the largest by deal count at 2,018, almost double 2020 and well above the prior all-time high of 1,698 in 2019.

Crypto/Blockchain VC Deals: Money Invested & Deal Count
Source: Galaxy Digital Research

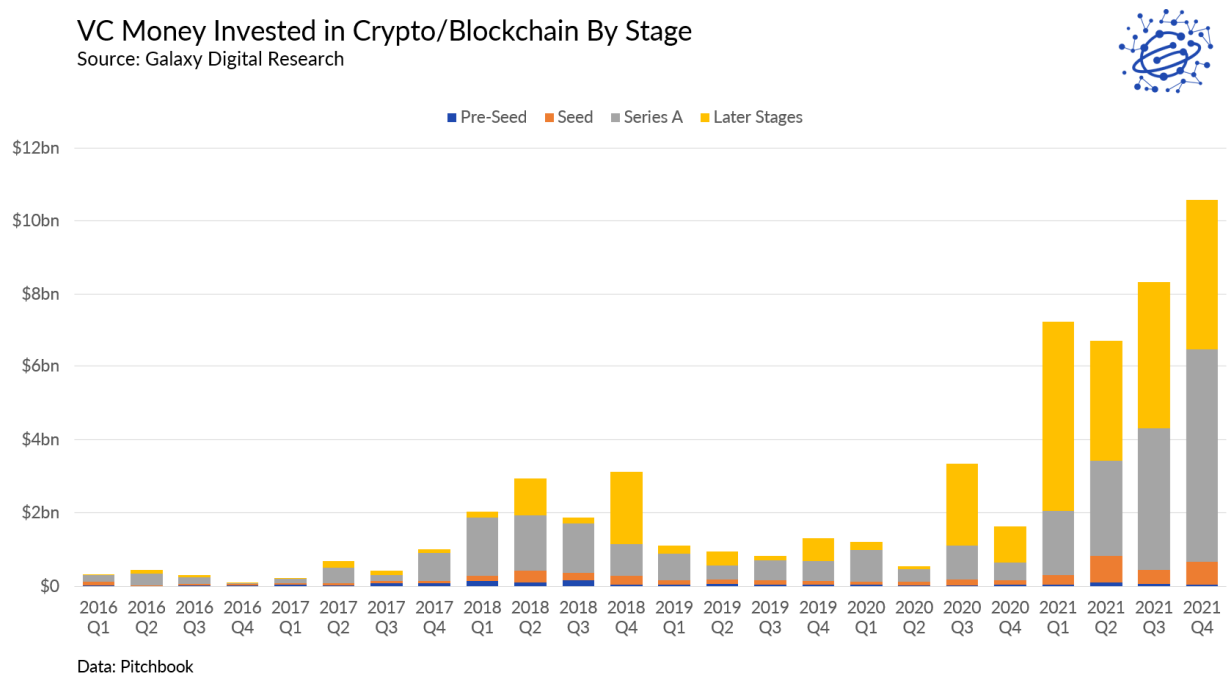


Data: Pitchbook

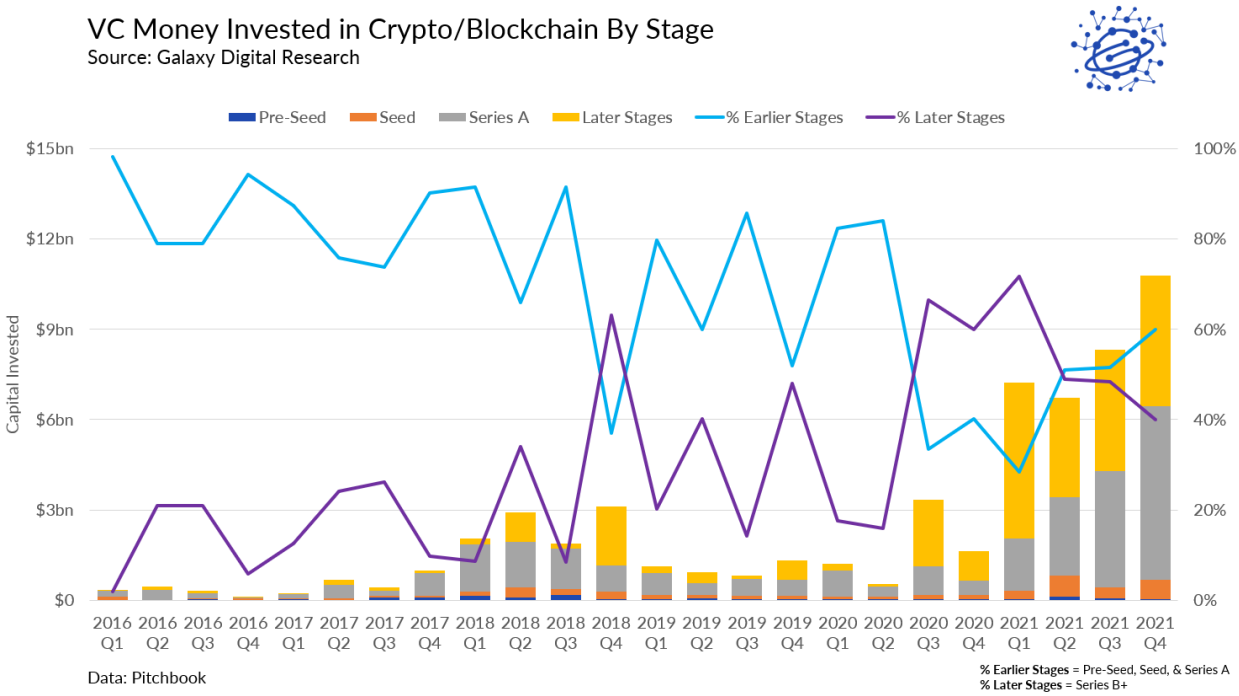
Crypto/Blockchain by Stage

Money Invested by Stage

Series A raises commanded the largest amount of capital in Q4, but later stages also saw significant investment.

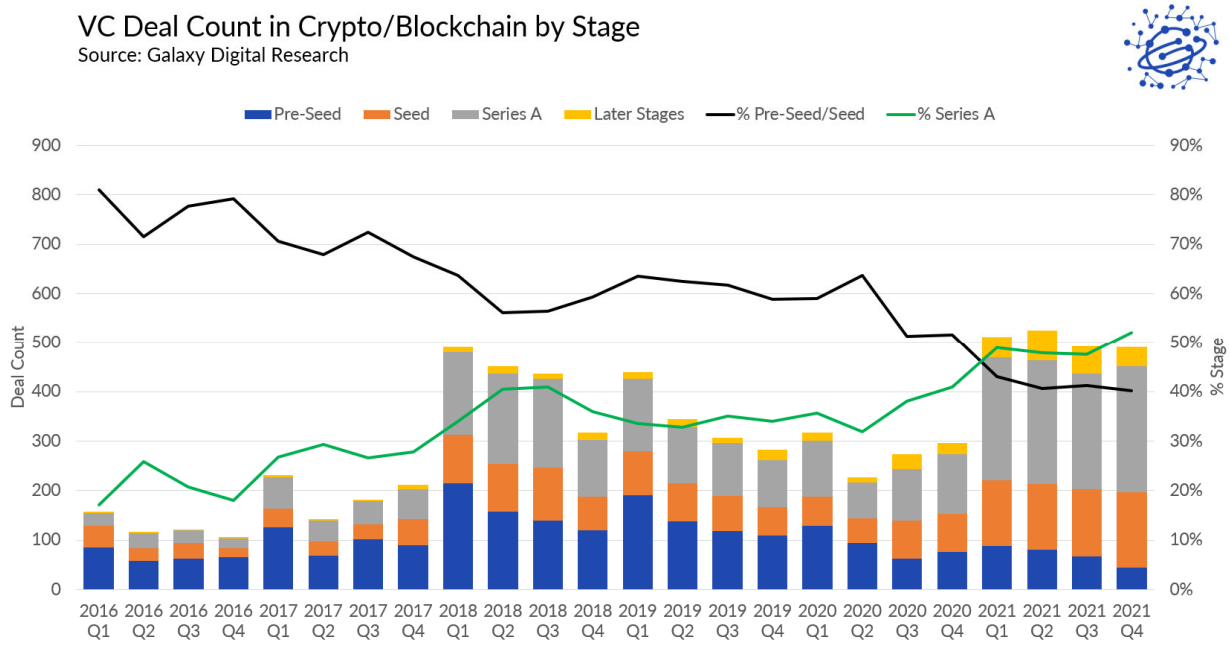


The portion of invested capital that went to earlier stage companies grew in Q4 to more than 60%, a sign that companies founded earlier this year were making strides and investors were taking notice.



Deal Count by Stage

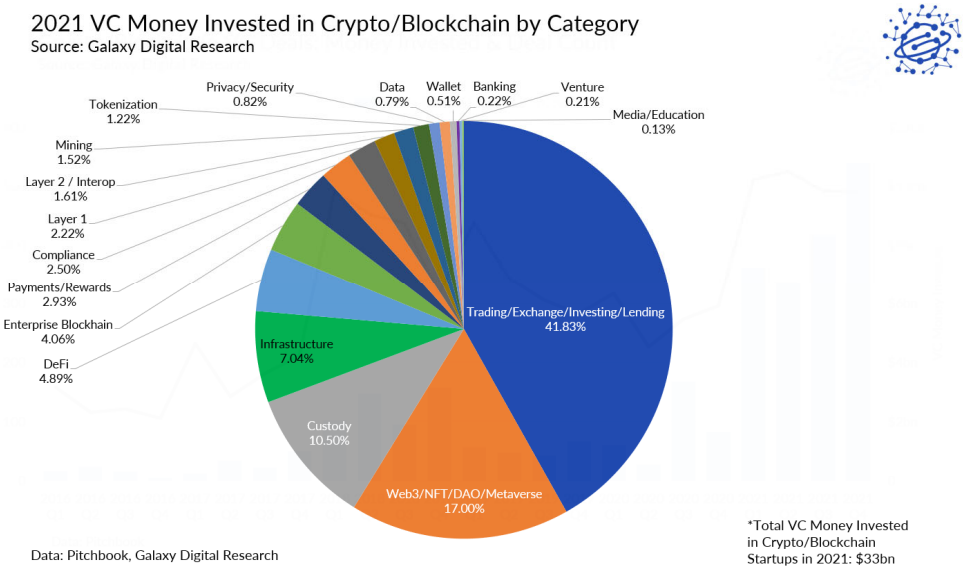
Deal counts were also elevated in 2021, with more than 2,000 deals struck across all stages. However, the portion of deals completed involving the earliest stage—Pre-Seed companies—continued a multi-month decline. Meanwhile, the portion of deals completed at the Series A stage reached its highest level on record. This dynamic can be partially attributed to the growing maturity of the space, with early-stage companies founded during the bear market of 2018-2020 reaching later stages successfully.



Data: Pitchbook

Crypto/Blockchain by Category

Of the $33bn invested by venture capitalists in the crypto/blockchain startup ecosystem, the largest portion went to companies offering trading, investing, exchange, and lending services. These companies received more than $13.8bn (41.83%). But a growing portion of venture capital was invested in Web3 companies, included companies building out NFT, DAO, and Metaverse tooling, infrastructure, and games (17%).

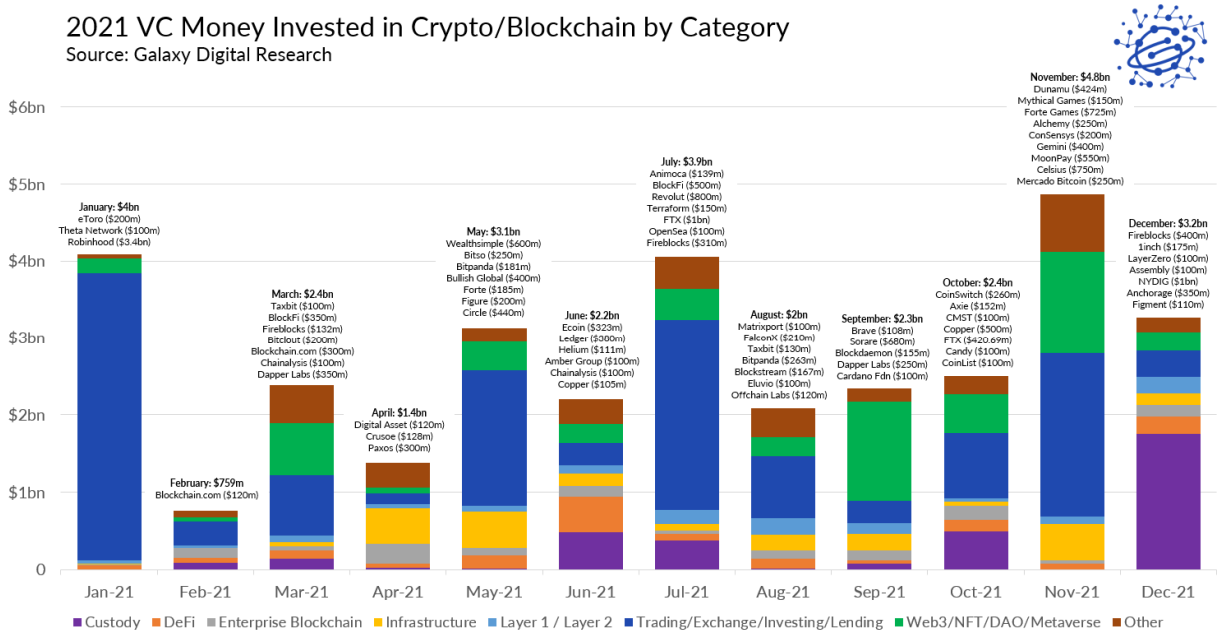


Data: Pitchbook, Galaxy Digital Research

*Total VC Money Invested in Crypto/Blockchain Startups in 2021: $33bn

In total, 2021 saw 69 fundraising rounds with deal sizes exceeding $100m. These deals—those that raised more than $100m—accounted for $22bn (67%) of the total $33bn invested in crypto/blockchain startups by venture capitalists.

2021 VC Money Invested in Crypto/Blockchain by Category
Source: Galaxy Digital Research



Data: Pitchbook, Galaxy Digital Research

*69 rounds identified with deal sizes above $100m, organized in descending chronological order

Crypto VC Funds Expand in Size and Scope

The explosive growth of the crypto/blockchain industry in 2021 saw venture fund managers both raise and deploy at a record pace. According to preliminary 2021 data from VisionTrack, the universe of crypto/blockchain venture firms now exceeds 500. 2021 saw 49 new funds raised, with an average 2021 vintage size of ~$300m, a 2x increase over the average fund size of 2020 vintages. Of the 49 new funds raised, 43% of them were first time funds and 41% were veterans raising new vintages. The demand from allocators for exposure to crypto/blockchain VCs sent many managers raising new funds faster than expected. According to VisionTrack, 62% of managers that raised funds in 2020 came back into market to raise new vintages in 2021, an astonishing number considering that most funds typically aim for a 3-5 year investment horizon.

New Funds Raised in 2021 by Crypto/Blockchain VC Firms
Source: Galaxy Digital Research

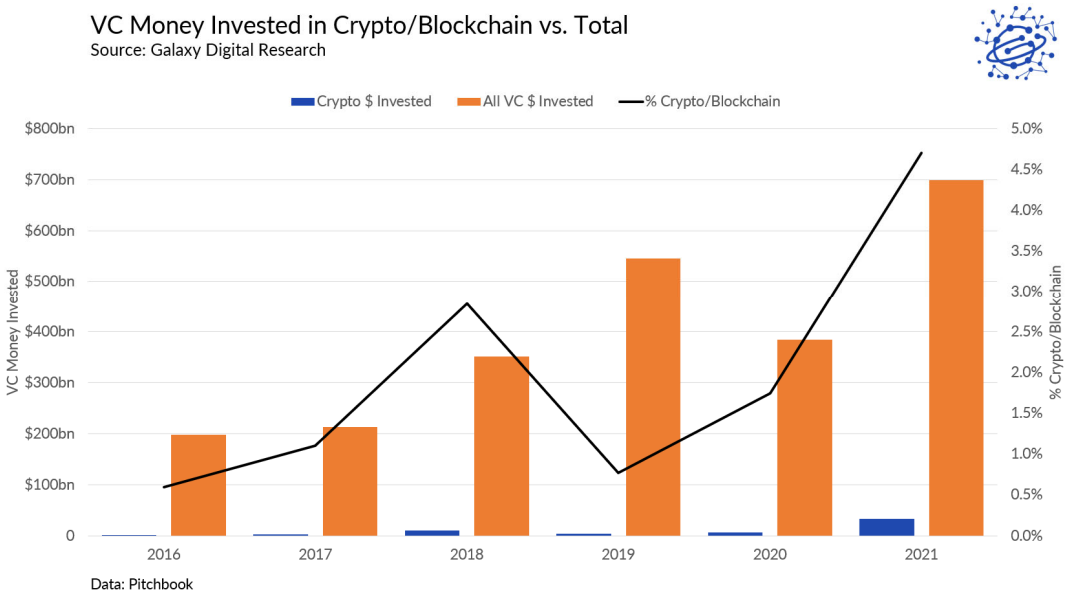
Fund Name	Investor	Date Closed	Amount
Paradigm	Paradigm	November 15	$2.5bn
a16z	Andreessen Horowitz	June 24	$2.2bn
HIVEMIND	Hivemind Capital Partners	November 29	$1.5bn
10T	10T Hodlings	September 8	$750m
PANTERA	Pantera Capital	November 23	$600m
initialized()	Initialized Capital Management	December 14	$530m
BORDERLESS CAPITAL	Borderless Capital	December 1	$500m
JumpCapital	Jump Capital	September 14	$350m
Joltcapital	Jolt Capital	September 6	$320m
BLOCKCHAIN CAPITAL	Blockchain Capital	April 14	$300m

Data: Pitchbook

Comparing to the Broader VC Landscape

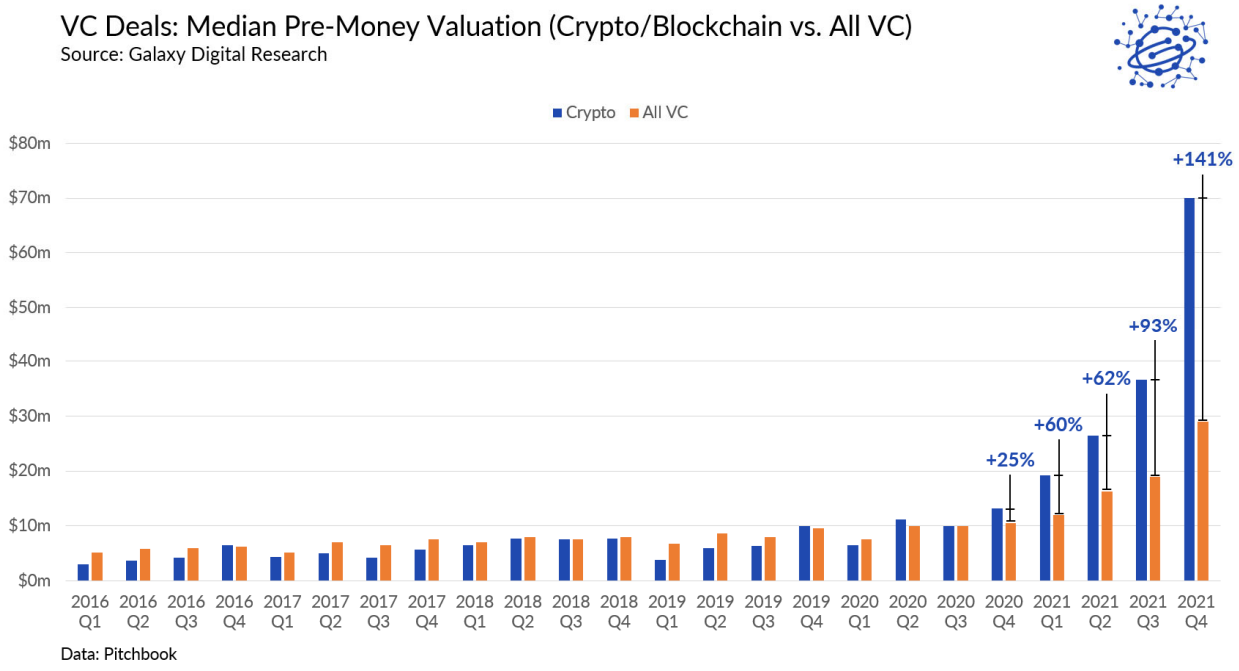
Total Capital Invested

More than $700bn was invested by venture capitalists in startups of all stages in 2021, the largest amount of private investment in early-stage companies ever recorded. In terms of total VC investment, crypto/blockchain startups received 4.7% of all money invested, the highest portion ever.



Valuation

Continuing a trend that has been ongoing for the last 5 quarters, the disparity between valuations for crypto/blockchain startups and those for the broader startup landscape continued to increase in Q4. Even though valuations are at all-time highs across the entire VC landscape, the median pre-money valuation for crypto/blockchain startups was a whopping $70m, 141% higher than the $29m seen across all of VC.

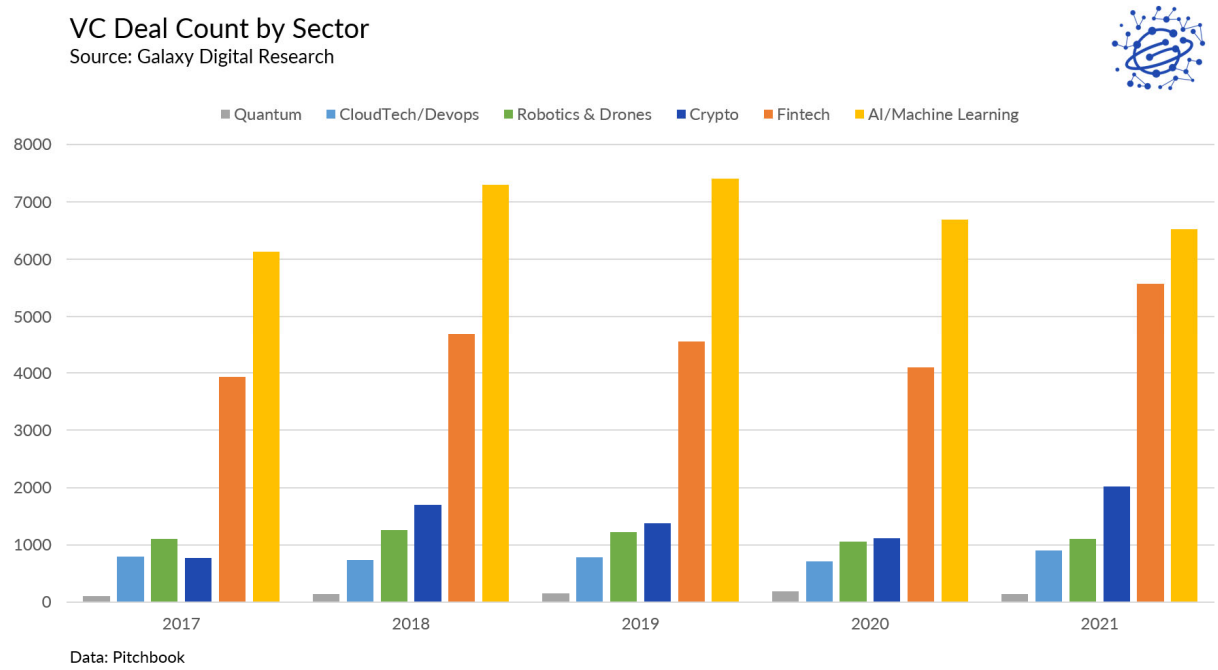


Comparing Crypto/Blockchain VC to Other Emerging Technologies

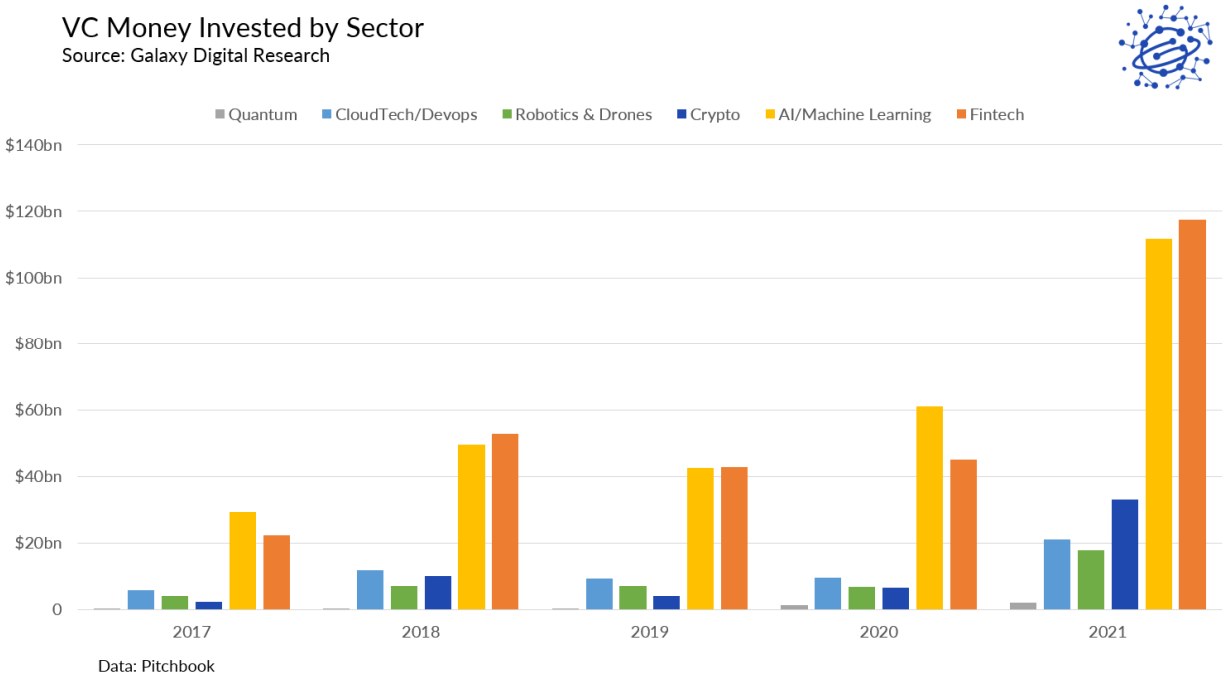
When compared to companies building in the quantum, cloud, robotics, fintech, and machine learning sectors, crypto has grown its share of both deal counts and VC money invested.

Deal Count

Crypto/blockchain VC deals topped 2,000 in 2021, or 12.41% of the sum of these six sectors.

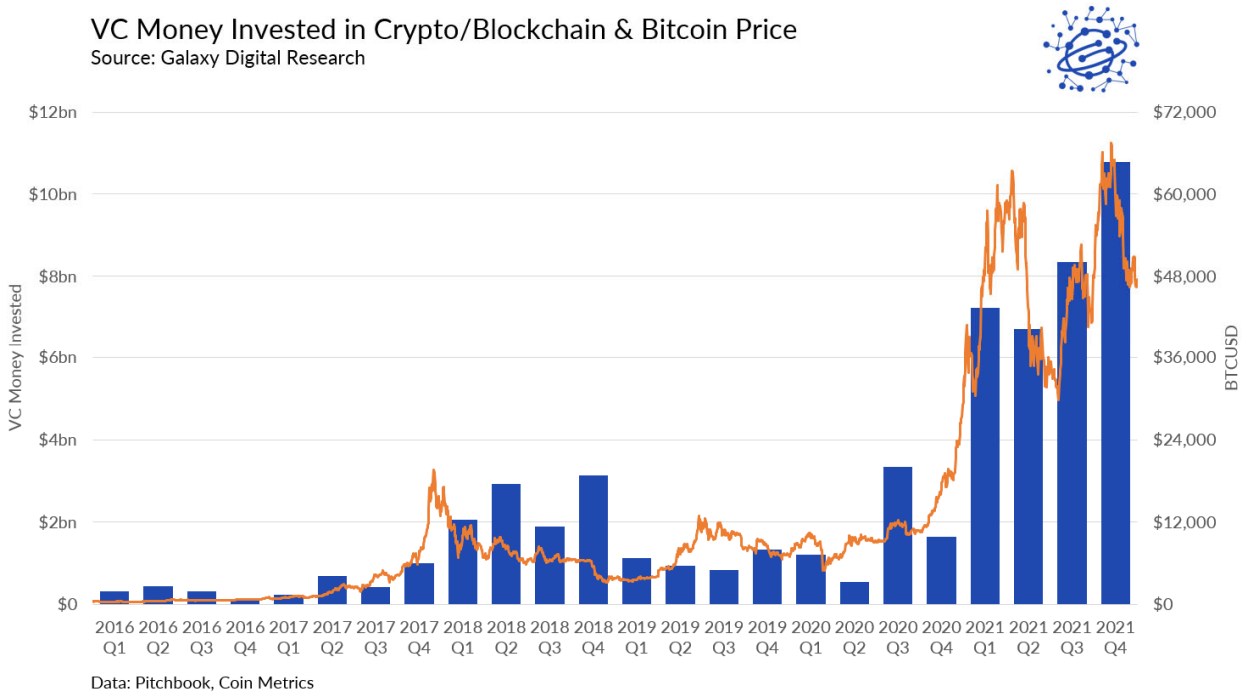


Comparing the total venture capital money invested in these six sectors, crypto/blockchain deals comprise more than 12%.



Crypto/Blockchain VC vs. Digital Asset Markets

Venture capital activity in the crypto/blockchain sector has historically mirrored the value of cryptoassets markets. Prior to 2021, private markets often lagged the bitcoin price, as visible in 2017 and 2018 in the chart below. In 2021, however, venture capital activity has almost perfectly correlated to digital asset markets, with significant inflows of capital occurring alongside BTCUSD price appreciation.



Analysis & Conclusions

In 2021, venture capital investors poured more money than ever before into private companies—more than $700bn, according to Pitchbook. This astronomical sum is more than double the amount of capital deployed by venture capitalists in 2018. In the cyrpto/blockchain sector, the same was true. Spurred by growing adoption, expanding use cases, and rising digital asset prices, venture invested more money into the crypto/blockchain sector in 2021 than all prior years combined.

More than simply a milestone, the data highlights several key points:

- **The crypto/blockchain startup ecosystem is maturing.** Several data points support this assessment: many successful early-stage crypto/blockchain companies, a significant portion of which were founded during the bear market of 2018-2020, have grown and progressed to later stages; 69 fundraises had deal sizes above $100m; 43 companies raised at valuations above $1bn, achieving "unicorn" status; the share of deals at the Pre-Seed stage continues to decline on a relative basis; and there is more diversity in the types companies being built and products being offered, a consequence of an expanding set of use-cases and market opportunities.

- **Many non-crypto-native firms are entering the space.** Rather than simply a consequence of crypto-native startups advancing to later stages, the total amount of venture capital money invested in crypto/blockchain companies is also impacted by the fact that many later stage companies that previously had no crypto offering have begun to incorporate crypto into their offerings. Wealthsimple and Robinhood are two prime examples, though the latter has since gone public.

- **The addressable market and opportunity are expanding.** In 2021, we saw VC investment across a broad range of distinct categories. As adoption has grown and digital asset markets have appreciated in value, investors have begun to rethink their assumptions about the industry's potential and addressable market, justifying bigger checks and larger

overall deal sizes. Crypto/blockchain companies operating across a range of categories are now finding significant investor interest, and the increased capital that flows from this interest will allow these companies to build more appealing and durable products, which in turn will only continue to spur further adoption and growth.

- **Fund size is exploding.** Both new and established venture firms are raising new funds at a record pace and of massive size. Several firms raised more than one vintage in 2021, and the average fund size was $300m according to VisionTrack. The median size of a crypto/blockchain deal is near its highest ever, rising more than 160% since Q4 2020 to nearly $4m by the end of 2021. The increased deal sizes show that funds are putting more money to work, and the competition is impacting valuation.

- **Crypto valuations are growing meteorically.** The growth in valuations for crypto/blockchain companies has significantly outpaced the broader VC market over the last year, with the median pre-money valuation for crypto/blockchain expanding its lead each quarter. In Q4 2021, The median pre-money valuation of a crypto/blockchain company that raised in 2021 was $70m, 141% higher than the median across all VC ($29m). The elevated valuations show the enormous demand from investors to allocate capital to the crypto/blockchain ecosystem. Increased competition among venture firms has allowed crypto/blockchain founders to raise more while giving up less equity. At the same time, it's hard to see how many venture funds, particularly smaller ones, will ultimately be able to see returns with the market as hot as its been.

- **More crypto companies are coming to public markets.** Today, the major crypto-related stocks are Coinbase (NASDAQ: CB) and a slew of publicly traded bitcoin miners such as Argo Group (NYSE: ARGO), Riot Blockchain (NASDAQ: RIOT), and Marathon Digital Holdings (NASDAQ: MARA). There are cyrpto-adjacent companies like Robinhood (NASDAQ: HOOD), PayPal (NASDAQ: PYPL), and MicroStrategy (NASDAQ: MSTR), but crypto is not the central focus of these companies (perhaps except for MicroStrategy). But there are 47 crypto-native companies that raised VC rounds in 2021 with valuations above $1bn, and that doesn't include stalwart industry leaders like Binance or Kraken or Bitmain or MicroBT, which do not appear to have raised funds last year. Many of these still-private crypto unicorns will undoubtedly seek to tap public capital markets in the coming years. And these companies operate across a wide swath of categories, not just trading or mining, but also gaming, NFTs, Web3, compliance, and data services. Investors seeking exposure to crypto through public equities will soon find a much more diversified set of options ranging from NFT and gaming firms to compliance and infrastructure plays.

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