



HyperScaled State of Web3 Venture Capital

Q3 2024 Report

July 2024





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1

VC Funding Landscape

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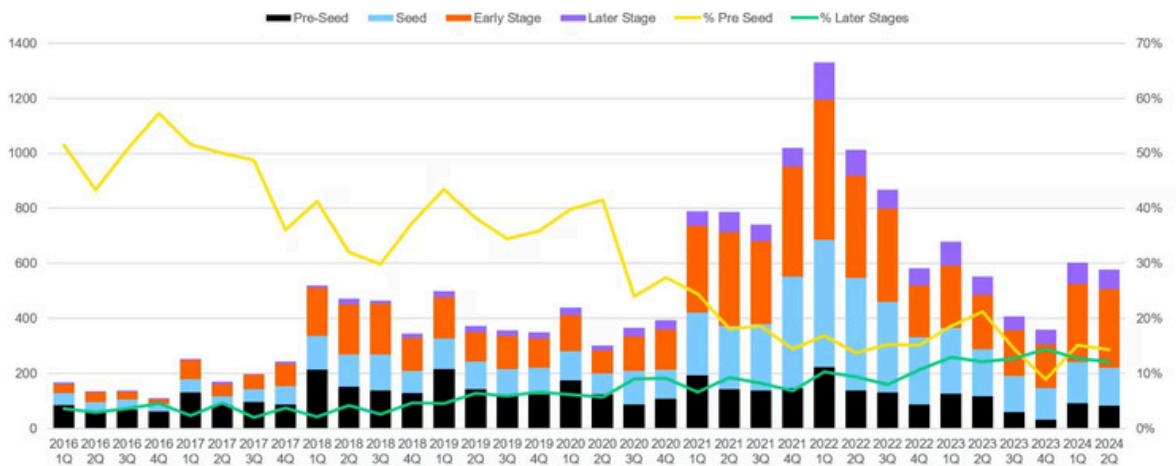
VC Funding Landscape

As we advance into the third quarter of 2024, the Web3 venture capital landscape presents a complex array of challenges and opportunities. Following a period of retrenchment, early signs of recovery are emerging, shaped by notable shifts in investment trends, technological breakthroughs, and evolving regulatory frameworks.

Despite a slight dip in the number of deals, the capital invested has increased, indicating heightened competition and a fear of missing out among investors. Early-stage investments remain robust, with the U.S. continuing to dominate the crypto startup ecosystem, although regulatory challenges may influence future dynamics (Galaxy).

Crypto VC Deal Count by Stage

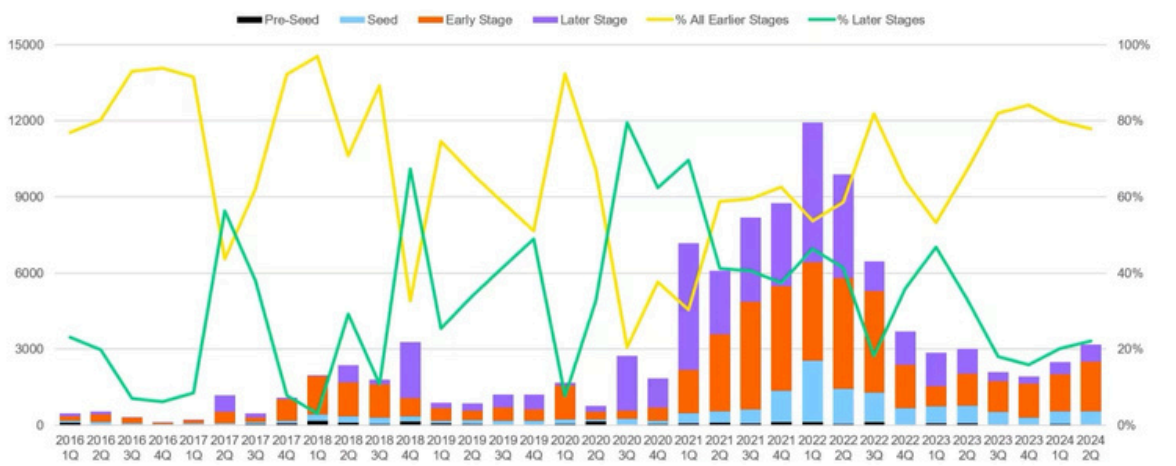
Source: Galaxy Research



Data: Pitchbook Data, Inc., Galaxy Research

Crypto VC Capital Invested by Stage

Source: Galaxy Research



Data: Pitchbook Data, Inc., Galaxy Research



Revival in Web3 Venture Capital Investment

The first quarter of 2024 has seen a promising revival in venture capital interest in Web3 technologies. According to a recent report by CoinTelegraph, total investment in Web3 firms surged by 55%, with the number of venture capitalist deals increasing by 36% compared to the previous quarter. This rebound is driven primarily by sectors such as Artificial Intelligence and gaming-related Web3 protocols, which have captured the majority of venture capital enthusiasm ([Crunchbase](#)).

Funding To VC-Backed Web3 Startups By Quarter



crunchbase



Shifts in Funding Dynamics

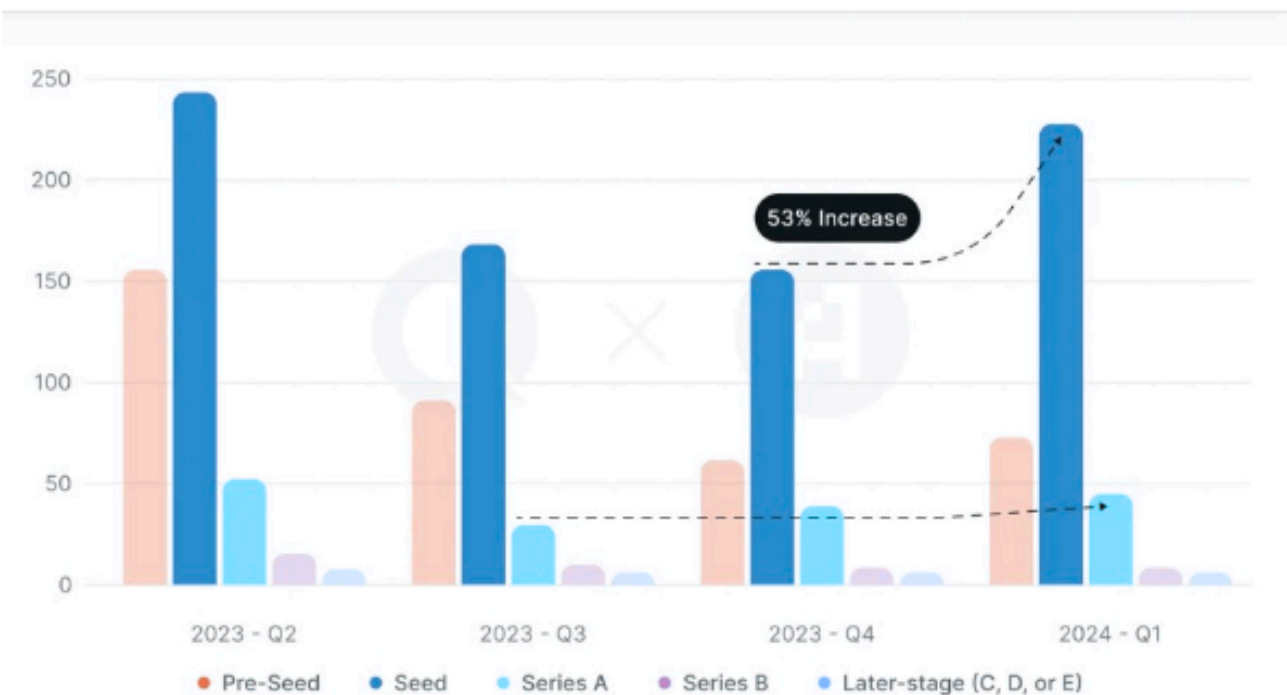
Despite the overall uplift, the funding landscape exhibits nuanced dynamics. Crunchbase data indicates that in Q1 2024, Web3 startups raised nearly \$1.9 billion across 346 deals, marking a 58% increase from the final quarter of 2023. This growth comes after a year of subdued activity, with a persistent downward trend in both the deal count and the volume of capital raised compared to previous years.

Seed Focus

However, the focus has shifted from short-term speculative investments to projects with a long-term thesis, highlighting a more mature approach to funding blockchain and cryptocurrency projects ([Cointelegraph](#)). Deals in the seed round saw the most growth, up 53% quarter-on-quarter, illustrating the increased interest in early-stage deals.

Seed round deals saw the biggest increase in number of deals during Q1'24 with 53% QoQ growth, while Series A deals continued an upward trend from Q3'23

Quarterly number of Web3 investment deals, by round



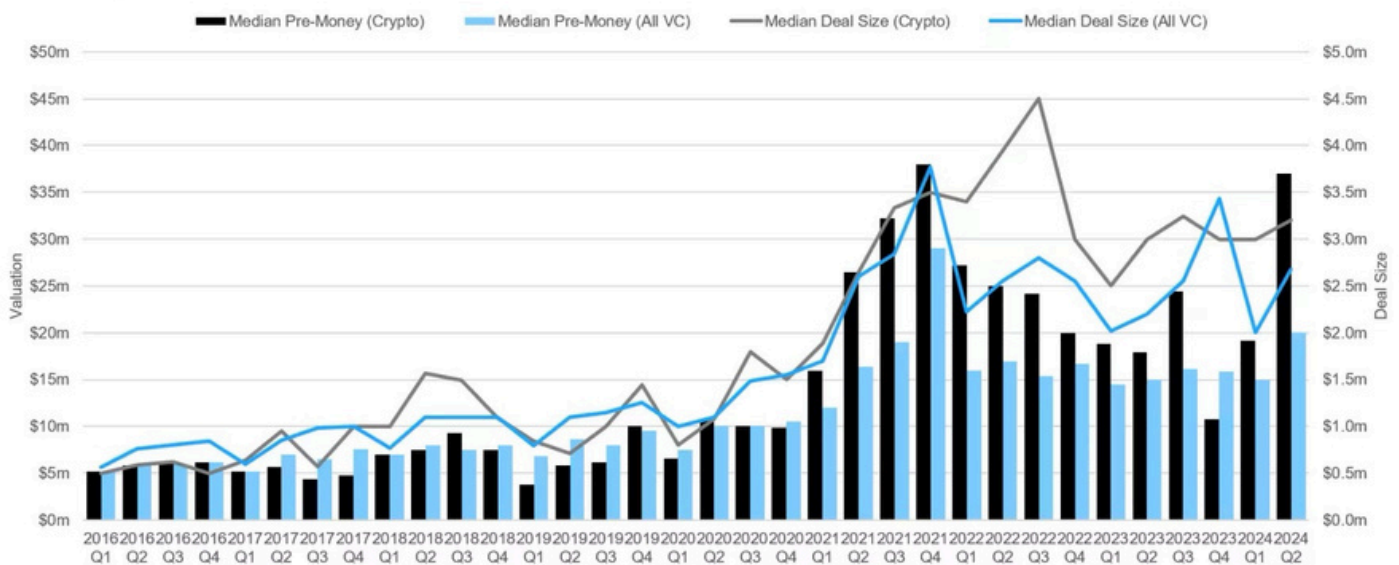


Web3 Venture Capital Market Sentiment

The 2024 outlook for Web3 venture capital is shaped by a general consensus of optimism tempered by a strategic caution. The sentiment across the industry leans towards the transformative potential of decentralized technologies and the growing integration of AI, highlighting the critical role of technological advancements. Regulatory clarity and institutional engagement are seen as pivotal drivers for unlocking venture capital flows and fostering market stability (Galaxy).

Valuation & Deal Size (Crypto vs. All VC)

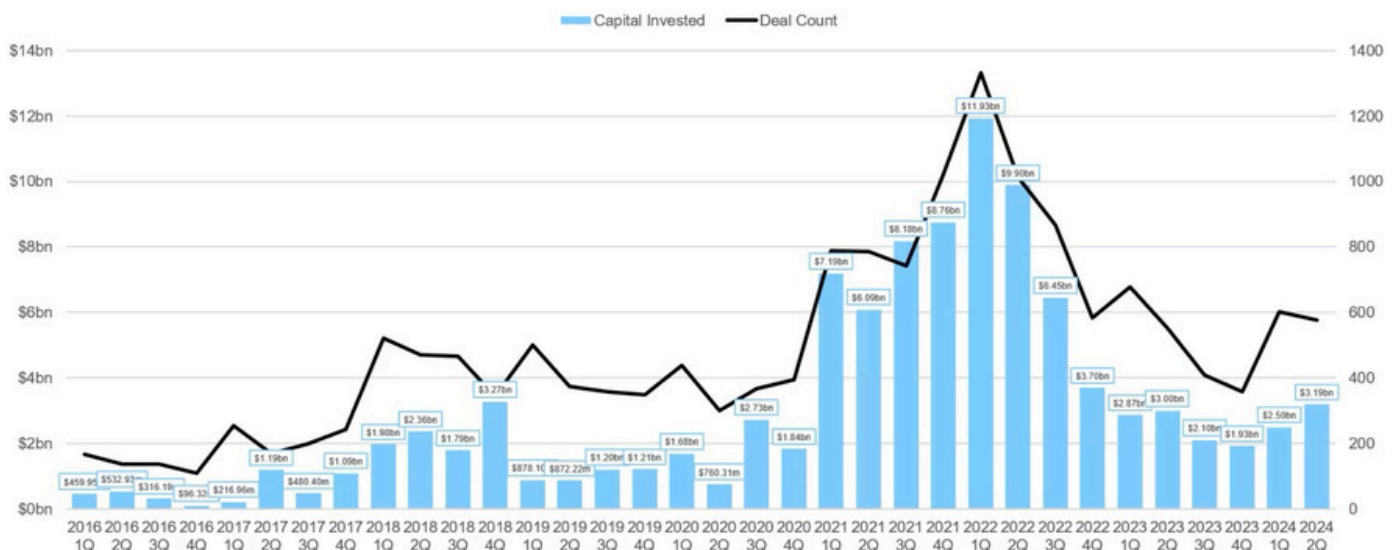
Source: Galaxy Research



Data: Pitchbook Data, Inc., Galaxy Research

Crypto VC Deal Count & Capital Invested

Source: Galaxy Research



Data: Pitchbook Data, Inc., Galaxy Research



Insights from 5 leading Venture Capital Firms

01

a16z (Andreessen Horowitz):

Expresses optimism about the future of the Web3 space, particularly praising the advancements in decentralized technologies and the potential for Web3 to democratize the internet infrastructure. They emphasize the importance of decentralization in promoting competition, ecosystem diversity, and user ownership, crucial for the long-term sustainability of Web3 technologies ([a16z](#)).

02

Pantera Capital:

Pantera Capital expresses strong confidence in blockchain's potential and growth, emphasizing the significant resilience of blockchain technology amidst broader market challenges. They note accelerated institutional adoption and positive legal outcomes as key drivers for future growth, expecting further innovations and mainstream adoption in 2024 ([Pantera Capital](#)).

03

Outlier Ventures:

Outlier Ventures highlights the significant role of regulatory developments and AI integration in Web3, expecting these factors to drive healthy decentralized market growth in 2024. They predict a continuation of innovative trends in tokenization and blockchain applications, aiming to bring mainstream Web2 user experience to Web3 platforms ([Outlier Ventures](#)).

04

Galaxy Ventures:

Galaxy Ventures adopts a cautiously optimistic outlook for 2024 despite the challenging environment of the previous year. They emphasize the importance of sustainable business models and predict that areas like blockspace and stablecoins will receive more investment. They also see a potential increase in consolidation activities within the industry ([Galaxy Ventures](#)).

05

Multicoin Capital:

Multicoin Capital remains bullish on the integration of AI with crypto and the Solana ecosystem. They see a "huge opportunity" for the crypto industry to engage in new financial technologies and decentralized applications, suggesting that innovative use of AI and other technologies will significantly impact the market in 2024 ([Multicoin Capital](#)).



Insights from 5 Major Financial Firms

01

Goldman Sachs:

Goldman Sachs sees potential for substantial growth in Web3 venture capital in 2024, driven by greater institutional engagement and regulatory clarity. They anticipate that the maturation of blockchain technologies will attract traditional financial institutions, enhancing liquidity and investment in the Web3 space ([Goldman Sachs](#)).

02

JP Morgan:

JP Morgan projects that Ethereum's upcoming EIP-4844 upgrade will lead to its outperformance in the Web3 sector, enhancing its appeal to venture capitalists. They maintain a cautious outlook on the broader Web3 market due to regulatory and economic uncertainties that could affect growth trajectories ([JP Morgan](#)).

03

PwC:

PwC forecasts that 2024 will be crucial for establishing regulatory frameworks that support the stability and innovation necessary for a thriving Web3 venture capital ecosystem. They emphasize the importance of Europe's regulatory progress, particularly the MiCAR, in creating a conducive environment for Web3 investments ([PwC](#)).

04

VanEck:

VanEck highlights the importance of regulatory developments in fostering a safe investment landscape for Web3. They suggest that clarity in regulations will be key to unlocking venture capital flows into Web3, with a focus on innovative financial instruments and stablecoins ([VanEck](#)).

05

Fidelity Investments:

Fidelity highlights several key factors for investors to watch in 2024, including Federal Reserve policies, the Bitcoin halving event, and regulatory decisions, particularly concerning Bitcoin and Ethereum ETPs. They anticipate sustained growth if current trends continue, especially with lower interest rates, although they advise caution due to the market's historical volatility ([Fidelity](#)).

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Web3 Funding Highlights

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Sector-Specific Fundraising Trends

Despite a general market uplift, large funding rounds remain rare. However, strategic investments are being channelled towards foundational technologies over applications like crypto wallets and lending platforms. The focus is shifting towards enhancing blockchain scalability and efficiency through Layer 2 projects.

2024's Largest Rounds

Exohood Labs, a London-based company working on an AI project that incorporates quantum computing and blockchain, recently secured \$112 million in seed funding, achieving a valuation of \$1.4 billion.

In Seattle, **EigenLabs**, known for developing EigenLayer for Ethereum staking, raised \$100 million in a Series B funding round led by a16z crypto.

Additionally, Hong Kong-based **Freechat**, which develops super applications for Web3 social networks, completed an \$80 million Series A funding round.

Monad Labs, focused on enhancing Layer 1 blockchain scalability, raised \$225 million, positioning itself at the forefront of blockchain technology and attracting significant investor attention.

Berachain, a DeFi infrastructure pioneer, secured \$100 million to advance its unique blockchain platform, demonstrating strong market confidence in its innovative DeFi solutions.

Avail, focused on blockchain scalability, secured \$27 million to expand its scalable protocols, ensuring support for large-scale applications and transactions.

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ICO Landscape

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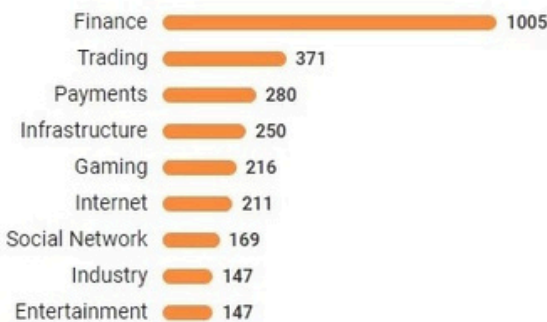
Q2 IDO and ICO landscape

Heading into Q3 2024, market sentiment towards Initial DEX Offerings (IDOs) and Initial Coin Offerings (ICOs) is cautiously optimistic. Confidence is bolstered by successful projects and clearer regulatory frameworks, with IDOs particularly attracting interest for their decentralized and liquid nature.

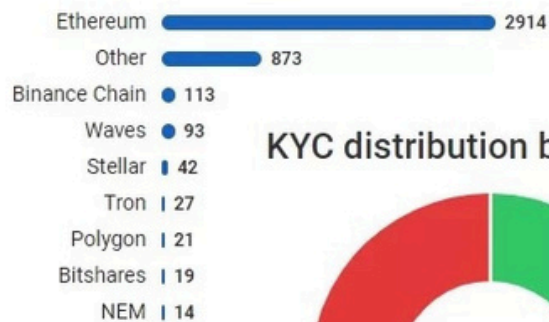
However, the inherent risks and market volatility temper this optimism, leading to more careful investor scrutiny and due diligence. Moreover, regulatory scrutiny continues to play a significant role, with ongoing developments in various jurisdictions influencing investor confidence. (Sagip).

Historical ICO Distribution

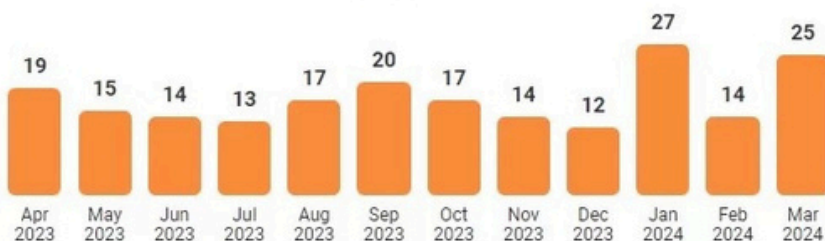
Projects by categories



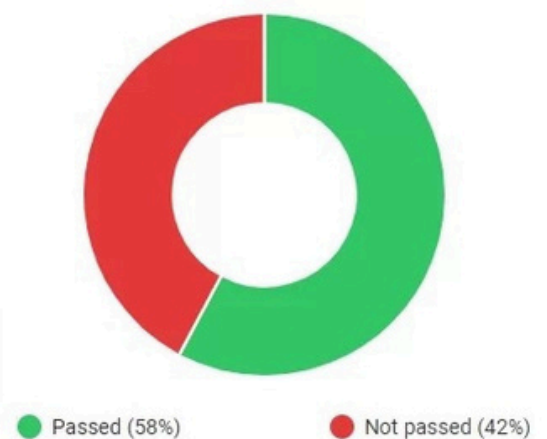
Projects by platforms



Published projects by months



KYC distribution by projects



Raised funds and amount of projects for the last year



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Bitcoin Landscape

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2024 BTC Market Overview

In 2024, the Bitcoin market has seen significant volatility, highlighted by a nearly 15% drop in April, which ended a seven-month bullish run and led to a decrease in monthly trading volume to \$6.58 trillion for the first time in that period. This downturn was influenced by increased regulatory scrutiny, especially in the United States, which has impacted investor confidence and market stability.

Additionally, incidents of market manipulation, such as those uncovered at Binance involving pump-and-dump schemes by "VIP" clients, have further strained trust in the market. Despite these challenges, some segments, like Robinhood's cryptocurrency platform, reported substantial earnings from robust trading activities ([Cointelegraph](#)).





BTC Q2 Market

In Q2 2024, Bitcoin dropped 12%, ending at \$62,743, contrasting with a 7.03% gain in Q2 2023. Despite this, it saw a 42.4% increase for the first half of 2024. Monthly performance fluctuated significantly, with a 7% drop in June, an 11.1% rise in May, and a 14.7% drop in April. Historically, June averages a 7.91% gain, but 2024 deviated from this trend. This period highlights Bitcoin's volatility and potential for substantial growth, emphasizing the importance of strategic timing and long-term perspective for investors. ([Coinpedia](#))

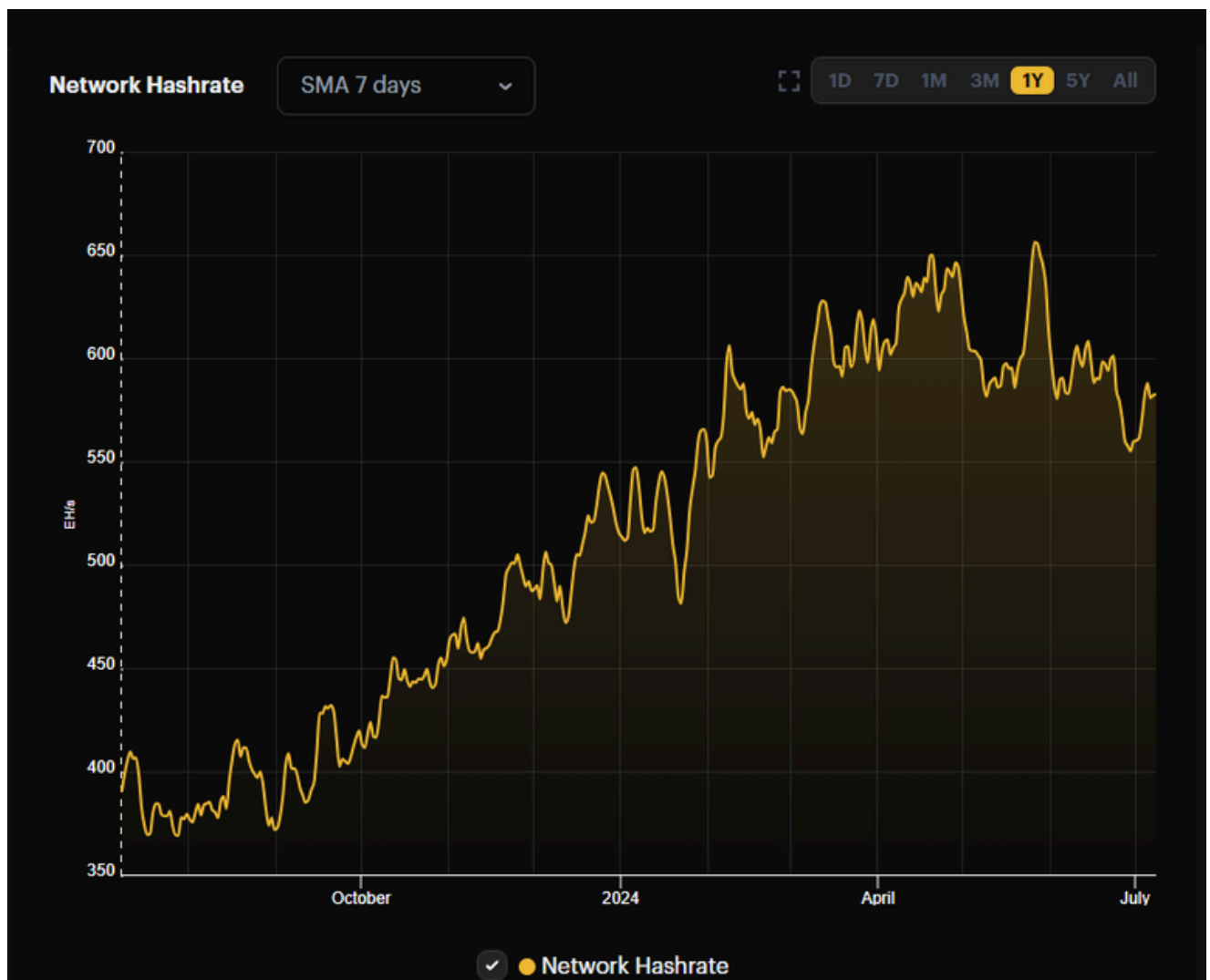
Year	Q1	Q2	Q3	Q4
2024	+68.7%	-12%	-	-
2023	+72.3%	+7.03%	-11.4%	+56.6%
2022	-1.59%	-56.7%	-2.08%	-14.9%
2021	+103.2%	-40.8%	+25.5%	+5.60%
2020	-10.4%	+42.2%	+17.8%	+169.7%
2019	+8.30%	+166.7%	-23.5%	-13.2%
2018	-50.7%	-7.77%	+3.44%	-43.1%
2017	+11.2%	+131.5%	+74.1%	+226.1%
2016	-3.25%	+61.6%	-9.34%	+58%
2015	-23.8%	+7.72%	-10.4%	+82.4%
2014	-39.5%	+40%	-39.7%	-17.4%
2013	+577.4%	+4.60%	+36.4%	+468.3%
2012	+4.50%	+37.2%	+82.6%	+7.52%
2011	+164.1%	+1,958%	-68.7%	-9.68%



Bitcoin Halving Market Impact

Bitcoin halving events, which reduce the mining reward by half, significantly impact both the Bitcoin market and the broader Web3 venture capital (VC) landscape. Historically, these events lead to heightened price volatility as traders speculate on the reduced supply's implications, often increasing Bitcoin's price and drawing substantial public and media attention.

For miners, the immediate effect is a drop in revenue, which could lead to a consolidation in mining operations, potentially centralizing activity among larger, more efficient miners. On the VC side, a successful halving that boosts Bitcoin's value can enhance the overall market capitalization of cryptocurrencies, thereby increasing available funds for Web3 projects ([AmbCrypto](#)).





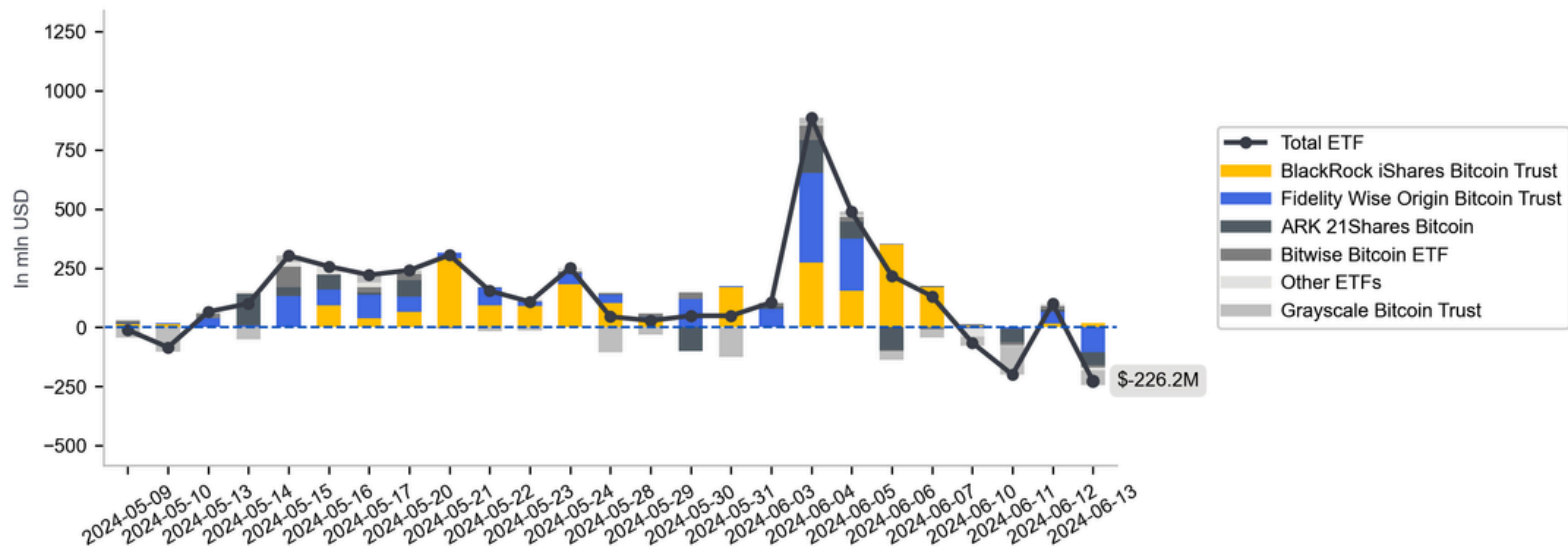
Bitcoin ETFs Market Impact

Bitcoin ETFs have introduced a transformative dynamic to the cryptocurrency market and the broader Web3 venture capital landscape. By providing a structured, regulated way for institutional and retail investors to gain exposure to Bitcoin without the complexities of direct ownership, these ETFs have significantly broadened the investor base and enhanced Bitcoin's legitimacy as an investment asset. This accessibility has led to increased liquidity and potentially more stable market conditions.

Major TradFi Players in the Space

Fidelity has launched Bitcoin ETFs that offer investors access to Bitcoin without the direct ownership complexities, while Goldman Sachs has expanded its asset management offerings to include Bitcoin futures. BlackRock has also entered the space, integrating Bitcoin into its investment strategies and exploring the potential of blockchain technology. These institutions' entry into the Bitcoin ETF market underscores the growing acceptance of cryptocurrency as a legitimate asset class (xtb)

Funds flow in mln USD, all ETFs comparison, daily



Database: Bloomberg Finance L.P.

Source: XTB Research

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Crypto Markets

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ETH ETFs Market Impact

The SEC approved a rule change allowing the creation of ETFs that buy and hold ether, the second-largest cryptocurrency by market capitalization. This decision follows the successful launch of bitcoin ETFs, which have seen over \$12 billion in net inflows.

The approval permits exchanges to list eight different ether funds, although the specific funds and their trading dates are not yet confirmed. Initially, ether ETFs are expected to be smaller and will not include staking features, which could impact their demand compared to bitcoin ETFs.

This development is significant for the Web3 venture capital landscape, indicating a potential shift in the SEC's approach to cryptocurrency regulation. The approval suggests a more favorable regulatory environment for digital assets, which could boost investor confidence and attract more capital into the sector. However, the lack of staking in ether ETFs might limit their attractiveness, highlighting the unique characteristics and use cases of ether in DeFi and NFTs ([Coinpedia](#)).



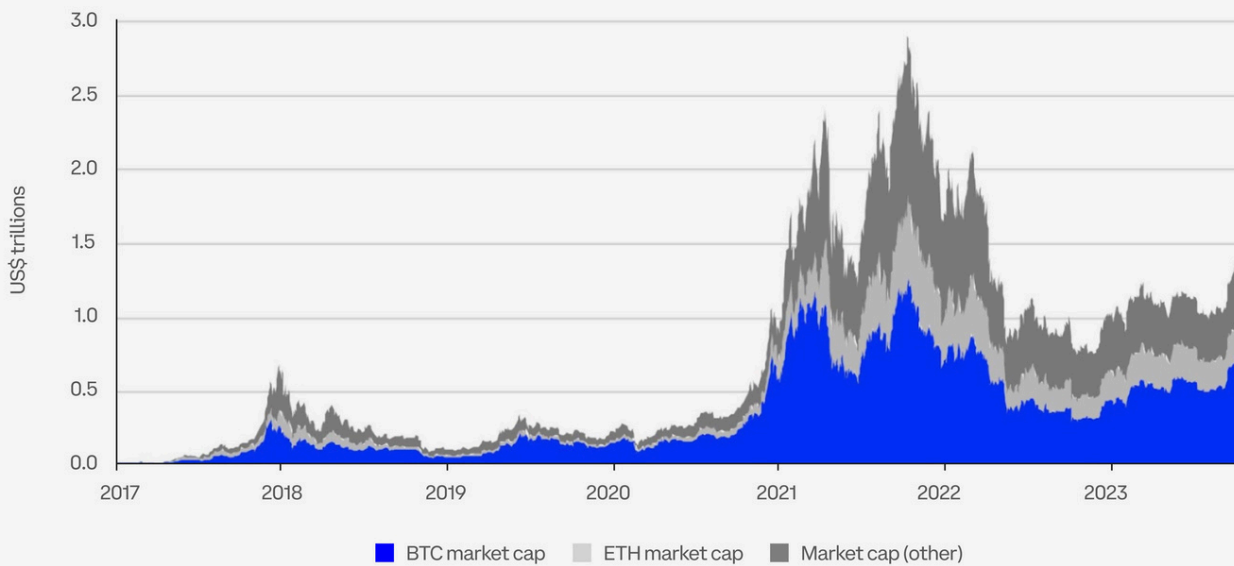
TradingView



Top 10 Cryptocurrencies 2024

In 2024, the cryptocurrency market continues to show significant growth and diversification, impacting the Web3 venture capital landscape. Bitcoin (BTC) remains the leader with a market capitalization of \$1.3 trillion and a staggering 128% year-over-year return, symbolizing its robust position as the foundational digital currency. Ethereum (ETH) follows with a market cap of \$369 billion, reflecting its critical role in supporting smart contracts and NFTs, with a year-over-year increase of 65%. Notably, Binance Coin (BNB) has expanded its utility beyond the Binance exchange, reaching a market cap of \$87.4 billion and an impressive 86% return ([Coinbase](#)).

Chart 1. Total crypto market capitalization at US\$1.5T



Sources: Coin Metrics and Coinbase.

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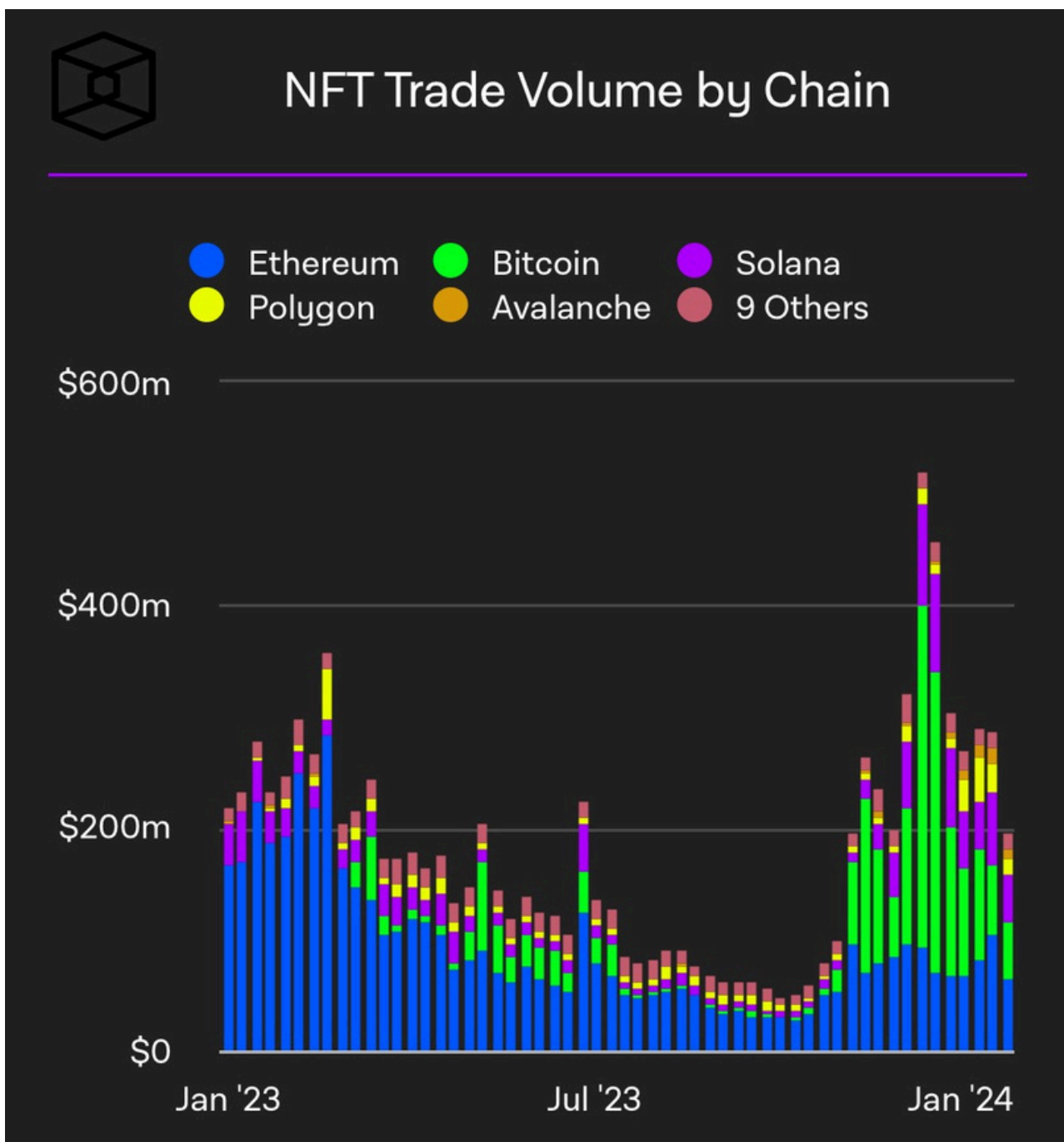
NFT Markets

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2024 NFT Market Trends

The NFT space has moved significantly beyond its early days of simple digital collectibles to become a more integrated part of the digital economy. NFTs are increasingly being used in mainstream industries such as music, film, and sports for rights management and fan engagement. Major brands and celebrities continue to launch their own NFTs, which not only include digital art but also offer real-world benefits such as access to events, merchandise, or exclusive experiences ([Coinpedia](#)).



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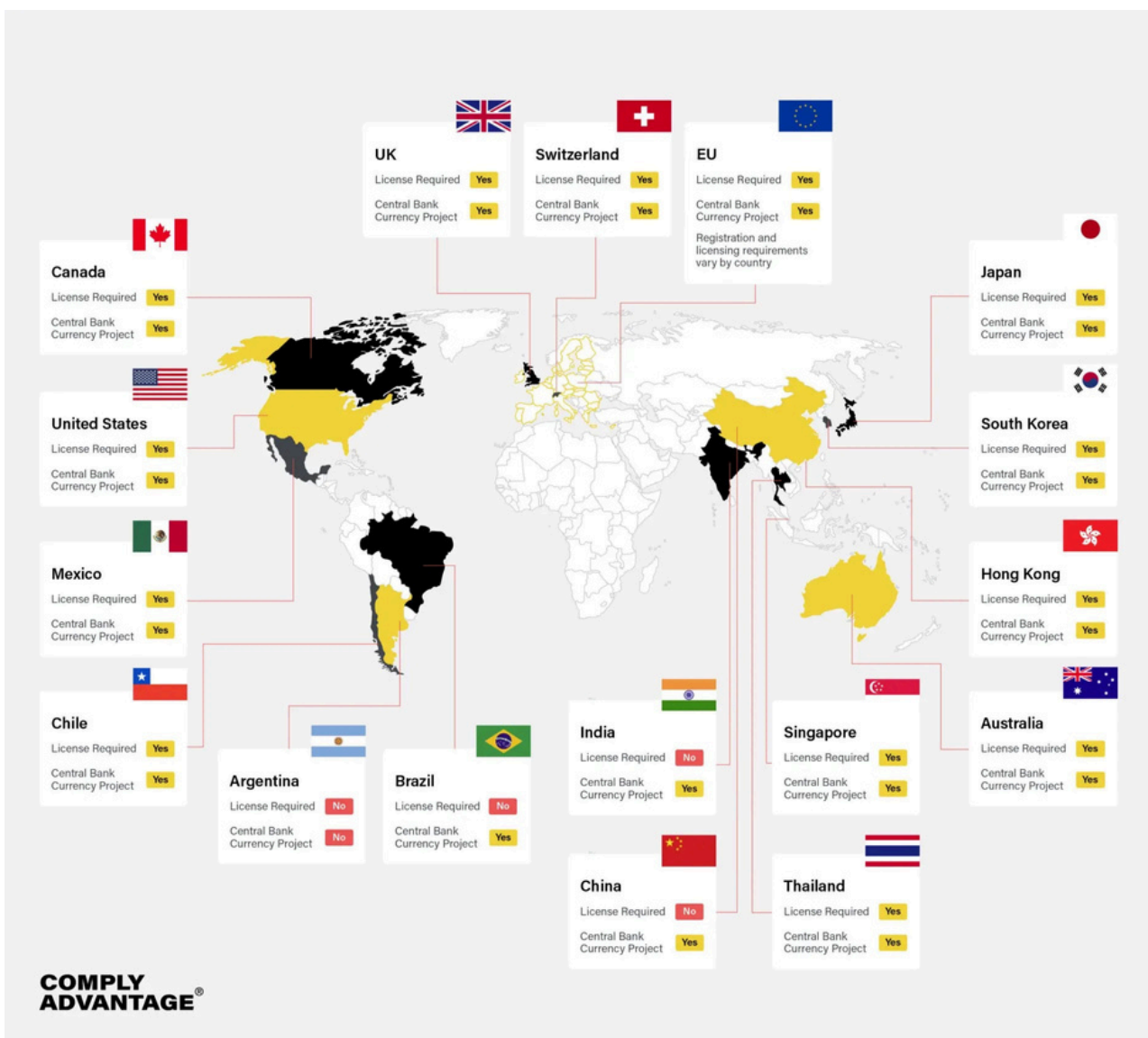
Regulatory Overview

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Regulatory Landscape and Its Impact

The regulatory environment continues to be a critical factor shaping investment trends. The anticipation of clearer regulatory guidelines, especially in the United States with the progression of Bitcoin and Ethereum ETFs, is likely to bolster investor confidence further. A well-defined regulatory framework will facilitate safer and more stable investment channels into Web3 technologies, potentially increasing venture capital flow into this space (complyadvantage).





2024 Year Ahead

As we look ahead to the remainder of 2024, the state of Web3 venture capital is poised for continued evolution and growth. Despite a more cautious investment climate compared to the 2021-2022 bull market, the resurgence in Bitcoin and Ethereum prices and the increased activity in emerging areas such as Bitcoin Layer 2s, restaking, and modularity signal a robust interest in the crypto ecosystem. The strong performance in early-stage funding reflects a healthy pipeline of innovation and entrepreneurial activity, suggesting a fertile ground for future breakthroughs in Web3 technologies.

As regulatory landscapes in major markets like the United States remain in flux, the strategic decisions of policymakers will be crucial in shaping the geographical distribution of capital and talent. The competitive environment among crypto-focused VCs, heightened by improved market sentiment and notable median valuation spikes, indicates a dynamic year ahead, with founders holding significant leverage in negotiations.

Investors will likely continue to focus on foundational technologies and infrastructure, with particular interest in scalable solutions and decentralized applications that push the boundaries of what is possible within the blockchain and crypto space. Overall, the second half of 2024 promises to be a pivotal period for Web3 venture capital, driven by innovation, regulatory developments, and the relentless pursuit of technological advancement.



Report Compilation

This report was compiled by the HyperScaled Investments team as a broad analysis of the current Crypto landscape and trends in Web3 investments.

The research compiled stems from various reputable sources such as media outlets, other VC reports, research subscriptions and social media.

Our goal is to provide a short overview on the main investment aspects in Web3 markets.



Noah Frankel

Senior Analyst



Mark El-Chami

Head of Investments



Maz Zaman

Managaing Partner

About HyperScaled

Our **vision** is to ignite mass innovation in blockchain technology by attracting more innovators and more investors through open collaboration.

Our mission is to hyper-charge innovation in real-world blockchain applications by providing elite teams access to smart investment, specialist advice and strategic partnerships.

Our **ethos** is to champion mass adoption of novel blockchain solutions to have: “Web3 functionality with a familiar Web2 user experience”.



hyperscaled.vc



[@HyperScaledWeb3](https://twitter.com/HyperScaledWeb3)



investors@hyperscaled.vc

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