PitchBook

2024

AUSTRALIA & NEW ZEALAND

Private Capital Breakdown

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Key takeaways

- The Australia & New Zealand private capital market has been hit by the same headwinds troubling markets worldwide. Deal counts and values have fallen sharply over the past couple of years, slowed by caution from investors amid a challenging dealmaking climate caused by rising interest rates and inflation, which has remained elevated from targets. The private capital markets are relatively young in their development, which can be seen as reason for optimism but also as a challenge that has further hindered dealmaking. The region has a developed and stable economy, though growth has been slower than other large economies recently.

- In 2023, VC deal activity fell to $3.2 billion across 634 deals. Though that marks the year as one of the more active, it is nearly 48% lower in terms of deal value and almost 36% lower from a deal-count perspective than in 2021. That slowdown has continued into 2024, with just 97 deals completed in Q1, amassing around $600 million in aggregate. The lack of depth in the investor community is a challenge for the market overall, which is small in comparison with many other regions searching for growth in the private markets.

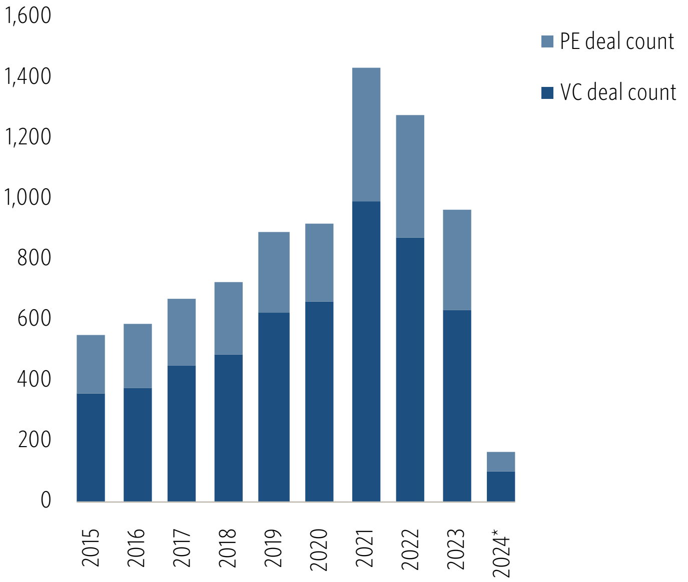
- Because of the size of Australia & New Zealand, startups typically need to have global ambition from day one in order to be backed by venture. The decision of whether a startup will go overseas is largely driven by the industry and the go-to-market approach of the business. For example, some startups choose to relocate to another part of the world to reach their largest customer base and further build trust.

- PE activity has also tumbled recently as higher interest rates have increased the costs of leverage within the market. In Q1, only 65 PE deals were closed, with just $2.8 billion trading hands in those transactions. Those figures put the Australia & New Zealand market on track for the slowest year in deal value since 2015, even as deal counts may approach the pre-2021 highs. Buyouts have taken the brunt of the market pressure, while growth equity has remained relatively resilient in the face of headwinds.

- Exits for PE- and VC-backed companies have been a challenge in the market, hindering growth. No year has produced more in exit value than was invested, and VC has generated less than $20 billion in total exit value during the past decade. Still, there are signs of hope on the horizon as companies such as Canva and Airwallex have the opportunity to more than double the amount of total exit value generated by the market. Those companies have already generated a large amount of returns from early investors, some of which have exited partial stakes in the companies through secondaries.

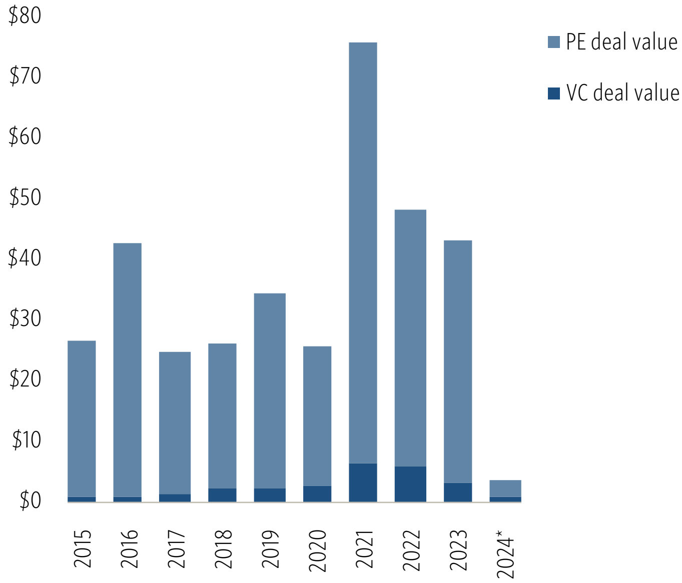
Australia & New Zealand market overview

Private capital deal count



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Private capital deal value ($B)



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Through the final quarter of 2023, Australia's economy staggered to slowing growth as the rise in interest rates stymied spending in the country. As with most countries' economies, inflation in Australia has remained above the target rates of central banks, though it has returned to the point where rate cuts have entered the discussion. So far in 2024, the Reserve Bank of Australia has kept rates unchanged at 4.35%, 90 basis points lower than the rates pinned by the US Federal Reserve. The Reserve Bank of Australia hiked rates 13 times from mid-2022 to December 2023, increasing the cash rate from 0.1% to 4.35%, the highest rate since late 2011. The expectation is that this rate will remain unchanged until later in 2024 amid a labor market that remains tight within the country despite the forecast of slowing economic growth.

The fast pace of interest rate hikes throughout 2023 hit Australian private capital markets similarly to more developed private markets. As the cost of capital rose, dealmaking fell. Leverage-based deals such as buyouts felt the brunt of the slowdown, but venture also slowed in the region, falling to a level on par with that of 2020.

The economies of Australia and New Zealand have not been the fastest growing among developed nations. In 2024, they are projected to grow at about 1.4% in real GDP terms, but their overall economic output is high compared with the combined countries' relatively small population. Just one country with a larger economy than the combined markets of Australia & New Zealand produces more on a per-capita basis: the US.

But relative to larger economies, the two countries remain a small market—roughly 20% smaller than the population of California—and their private markets contend with unique challenges for growth. From an immediate market perspective, other countries across the Asia-Pacific (APAC) region offer significantly larger opportunities. India and China boast populations that are more than 50 times larger than Australia's, and much larger populations exist within smaller countries in Southeast Asia. This leads to an expectation that companies in Australia & New Zealand will expand overseas, especially for VC return expectations.

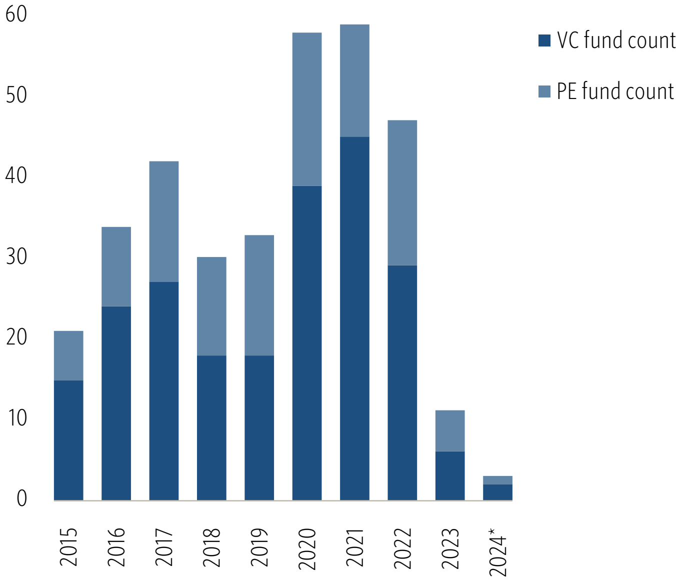
Another unique aspect of the regional economies and capital markets of Australia & New Zealand is that they are much more mature than most economies throughout APAC. The rich reserves of natural resources have provided an economic boon for decades, regional currencies have shown to be stable, and Australia & New Zealand has largely stayed out of geopolitical tensions despite deep ties to the US and China. In summary, from a risk-profile standpoint, the Australia and New Zealand private capital markets offer a much different opportunity from other nearby markets.

However, the return prospects of Australia's private capital markets are lower than those of other developed private markets globally. No year on record has seen companies headquartered in Australia & New Zealand produce more in exit value than the region's annual sum invested in PE or VC. For VC, just $18.9 billion in exit value has been created since 2015. In PE, the total investment of $323.9 billion since 2015 has generated only $122.4 billion in exit value—an efficiency rate of just 37.7%.

Those figures alone are not likely to drive a rush of interest from new investors, but it should be noted that the market remains in the early stages of its development. Australia now has six unicorns that would generate more than twice the country's total exit value of the past decade. The number of new VC firms raising funds (particularly from 2019 to 2021) highlights a growing source of capital for startups. Private credit has grown with rate increases, attracting the likes of some of the largest private market institutions from around the world. Furthermore, in Australia & New Zealand, PE's slow 2023 saw nearly 20% more activity than the pre-2021 annual high. Though PE and VC data coming out of the market has shown much slower quarters recently, there remains a large amount of optimism for growth moving forward.

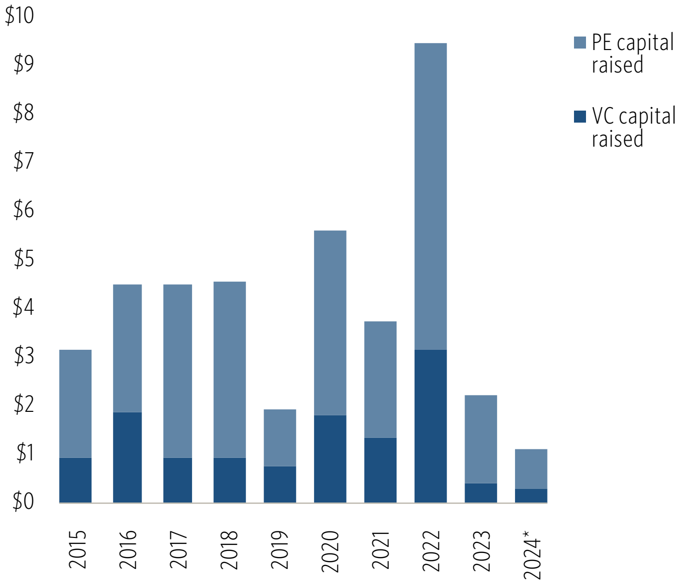
For private market investors, Australia & New Zealand offers a stable market that is young in its growth, but one that has not provided the returns sufficient to fully entertain an increase in exposure. The next few years will be pivotal for continued development in the region, with several outsized VC exits on the table.

Private capital fund count



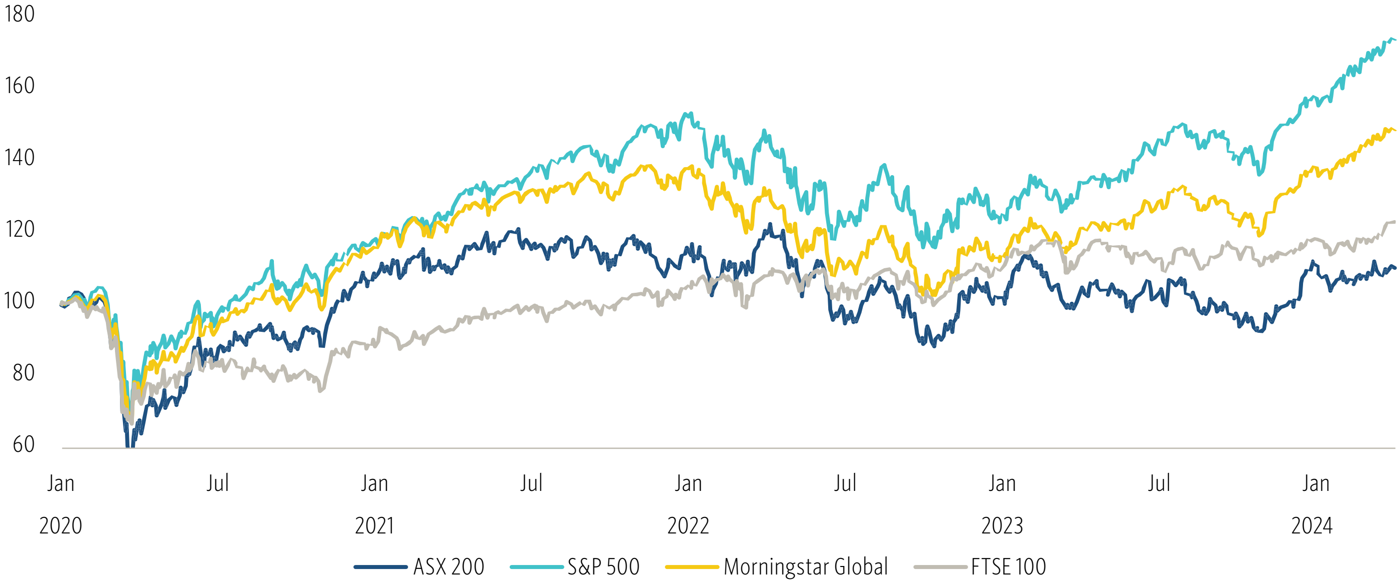
Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Private capital raised ($B)



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Select public market index returns rebased to 100 in 2020*



Sources: PitchBook and Morningstar • Geography: Australia & New Zealand • *As of April 1, 2024

A WORD FROM J.P. MORGAN

Trends in private capital

While the global macroeconomic and geopolitical backdrop has been a headwind to dealmaking volumes over the past couple of years, the medium- to long-term outlook is bright, with plenty of innovation happening and significant dry powder reserves.

Ginger Chambless
Head of Research, Commercial Banking

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In the current business environment, two main dynamics are hindering deal activity: the cost of growth and inflation.

The macro environment has impacted the operating leverage and cost curve for many businesses. As a result, founders and investors are having to recalibrate their growth expectations for a given risk profile. Increasing enterprise valuation over the long term remains the ultimate objective, but there is much greater attention in the near term on unit economics and generating return on investment (ROI). This is being partly accomplished through a reduction in costs, including trimming head count to extend runway. Other tactics being deployed are internal revenue-generating initiatives, such as a renewed focus on interest optimization for surplus cash balances held globally.

Persistently elevated, albeit moderating, inflation in the Australian and US economies is leading to uncertainty around the timing and path of future interest rate reductions, which is affecting corporate deal activity. However, where valuations have seen a meaningful reset and/or founders are motivated to exit, deals are then occurring with strategic partners.

Within the tech sector, a steady stream of Australian and New Zealand companies have been taken private over the past 18 months, with notable examples like Pushpay, Nitro, Elmo, Nearmap, and most recently, Altium. This builds on the thematic track record that the region can produce high-quality tech companies, with reasonable value compared to overseas markets.

Australian companies often seek advice around accessing and navigating international markets for growth and international capital markets for liquidity.

As the Australian economy represents a small portion of the overall global total addressable market that companies target, companies in the region are challenged to effectively build scale globally. Finding the right investors and/or banking partners that can advise along these lines can provide a meaningful competitive advantage.

Access to capital is equally important for a young company looking to scale. Due to the limiting size of the local venture market, Australian businesses often need to look to the US or other international markets for funding needs, especially larger Series B+ rounds.

It is also not uncommon for Australian startups to have ambitions to list on the Nasdaq, given the perception that US investors have a deeper understanding of tech companies, which can ultimately result in higher valuations. However, to attract broad support and market fit in the US, size and scale are important. Many companies, particularly in the early stage, do not meet the threshold. This is a driver of the drop in valuations of approximately 30% to 45% for local private tech companies since the 2021 peak.

The Australian Securities Exchange provides an alternative listing option, and in some cases, premium valuations can be achieved given scarcity value for high-quality tech companies. Arguably more important, it also allows earlier-stage companies to gain access to public markets and begin to establish a track record. As compared to the past couple years, dialogue with vendors and investors has picked up recently as it relates to an IPO as a realistic exit option. Alternatively, founders and investors are also seeking exits with private equity or a strategic buyer.

Regardless of the next step, actively cultivating cross-border relationships with banking partners, strategics, and investors is critical. Expansion into a new market, cross-border capital raising, or an exit takes time to execute, and founders should have the groundwork completed when the opportunity arises.

Subdued exit market activity over the past two years is causing pressure to build for other liquidity alternatives.

The subdued IPO market is creating a slowdown in exits overall, which is limiting the return of funds to investors. This is also resulting in an uptick in secondaries to allow VCs to realize ROI on capital that comes from funds raised in 2015 to 2020, including Canva's $1.5 billion secondary private capital raise in January 2024.

There is significant dry power in the market, which needs to be put to work. VCs and sponsors are starting to feel the pressure to invest the remaining capital from funds raised in the 2021 to 2022 vintage to get ROI on time for LPs. This is creating an oversubscription on names that have a proven product or market fit and a strong runway and have demonstrated they're on a path to profitability.

The Australian government is supporting innovation in quantum computing to help drive AI.

With the evolution of chip manufacturing, driven by an ever-growing demand for greater processing power, quantum computing presents the next wave of innovation.

The Australia market is home to a few leaders in the sector, such as Silicon Quantum Computing, Diraq, Q-CTRL, and PsiQuantum, that are working on developing commercially viable quantum computer technology. The Australian government has also leaned in to support the evolution of the sector by making a $660 million commitment to PsiQuantum in April 2024, which is consistent with the sovereign approach theme in the sector around capital raising.

If quantum computing companies, along with AI companies, hit their objectives over the coming years, then most business models will be impacted. In addition, founders and investors will be trying to solve a range of tertiary impacts—for example, how to produce enough energy to meet the expected demand for AI computing.

While we recognize the transformational potential of AI on the global economy and broader society, the effects that AI will have on capital investment in the short term may be slower than expected. It will take time to build products that gain enterprise adoption. Companies involved with AI currently may be solving for problems that either don't yet exist, or that customers are not yet ready to adopt, which may lead to unsuccessful product or market fit, or both, and depressed revenue trajectory. Nonetheless, VCs are optimistic that AI will drive the next wave of investment and unicorns.

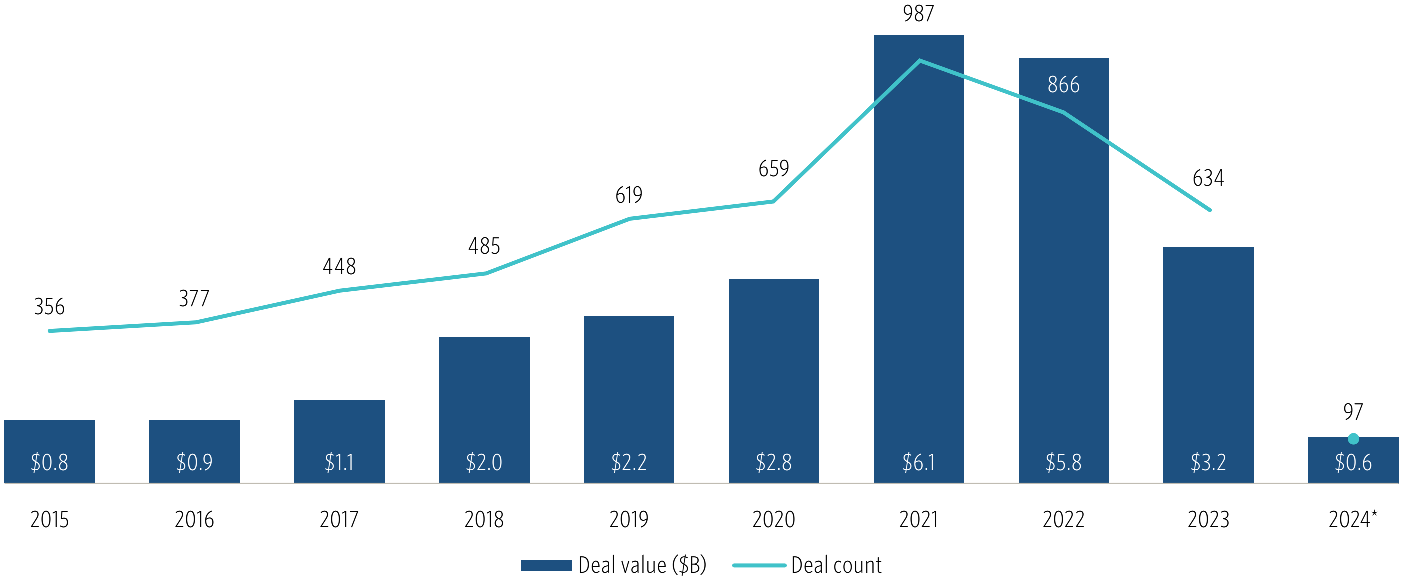
Last year's market disruption extended abroad, and we expect local governments to remain involved in dealmaking.

The US market disruption last year resulted in several Australia and New Zealand tech companies rethinking their strategy around liquidity and cash management, which historically was not a focus. Given J.P. Morgan's strong balance sheet and local capabilities, we have been able to assist several companies in securing their cash and supporting their global banking needs, which is something companies are now seeking to set up before they scale globally.

With respect to acquisitions, the Australian government recently streamlined the process and increased the burden on acquirers to notify the Australian Competition and Consumer Commission (ACCC) to help minimize serial acquisitions and transactions that entrench market power to larger players as well as safeguard economic and national security interests.

Dealmaking

VC deal activity



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

The state of venture in Australia & New Zealand

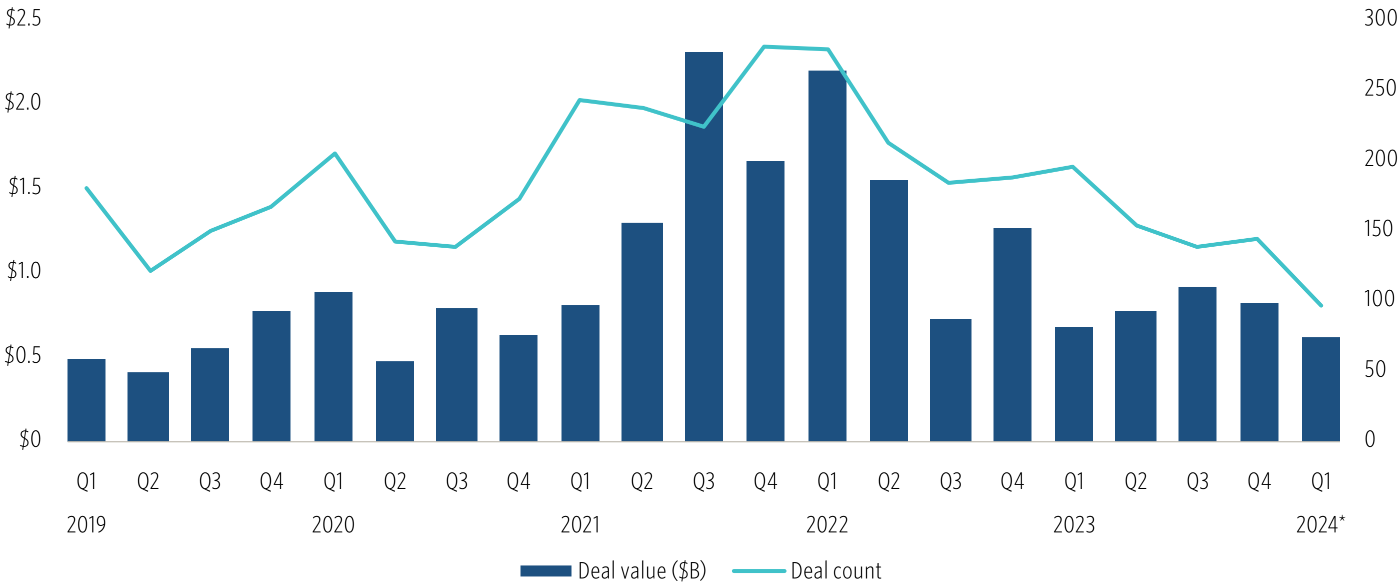
VC dealmaking in Australia & New Zealand during the past few years largely mirrored the global private market trend of declining activity. 2021 marked the market height, where $6.1 billion was deployed into the two regional venture ecosystems across 987 deals. The 2022 total VC deal value was roughly on par with the 2021 record, while the number of deals dropped 12.3%. In 2023, both deal value and count experienced a free fall, landing at $3.2 billion across 634 deals. On a positive note, 2023 deal value narrowly eclipsed the pre-pandemic average, suggesting a normalization of the VC market. Indeed, a host of macroeconomic factors such as inflation and geopolitical volatility has put strains on the Australian venture ecosystem. Within the region, Australia's venture ecosystem is significantly larger than that of New Zealand. In 2023, the number of VC deals in Australia was more than fivefold that of its New Zealand counterpart. The same statement holds true with regard to deal value.

Amid a reset of the regional ecosystem, investors across the board placed more emphasis on company fundamentals than on market momentum. Rounds are taking longer to complete as a result of a higher selection bar for investment and a longer due diligence process. As of Q1 2024, the median number of years since a startup last raised a VC round has ascended to 1.8 years—the highest we have observed in a decade. Scarcer capital availability and downward pressure on valuations have put strains on the regional ecosystem.

Anecdotally speaking, compared with 2023, a highlight of the market sentiment in 2024 is increased optimism that a recovery is coming. While the number of closed VC deals consistently declined between Q1 2023 and Q1 2024—except for Q4 2023, where deal count experienced a slight uptick—more people held the idea that the market had either hit a bottom or was close and that the next 12 to 24 months would bring along recovery in momentum. In 2024, there was more convergence among market views on the long-term outlook and a general acceptance that rates will be held higher for longer.

The Australian venture market is still in its early innings but has been growing rapidly during the past decade. The VC space was relatively immature as of 20 years ago, but over time both the number of investors and amount of capital available experienced expansions. Several unique characteristics of the Australian ecosystem help set the context for the investment patterns from recent years. Distinguished Australian-born software-as-a-service

VC deal activity by quarter

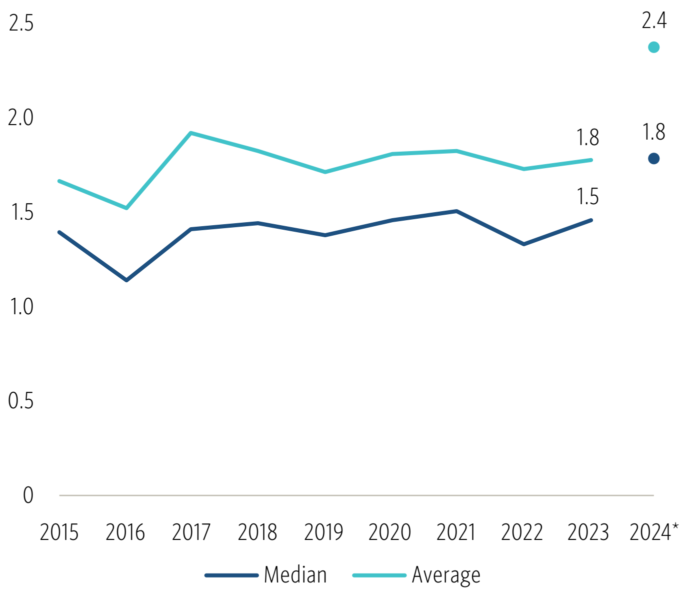


Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

(SaaS) businesses such as Atlassian and Canva have taken the global stage and demonstrated strength in product design. There has been a push within Australia to boost efforts in commercializing homegrown technology and products, which is partially reflected in the increase in regional venture. In contrast with the US, where founders have access to a massive domestic market from day one, the Australian venture market is small, which means many founders are focused on international expansion to produce a large outcome. Similar to other emerging markets where regional capital availability is dwarfed by that of some of the largest venture markets such as the US, Australian startups tend to operate more efficiently with capital, trying to get more done with a lower amount of investment.

Alongside rapid growth within the regional ecosystem, the Australian market faces two sets of challenges. To start, the depth of the investor community and breadth of support available for founders have yet to reach a mature level. For example, there are only a handful of large venture funds in the region, and a common frustration among VC managers is the difficulty for the broader venture community to attain support from large-scale allocators such as the superannuation (super) funds. In addition, for managers that focus on very early stages, many are highly cautious with capital deployment because they have not yet established a track record while investing out of their first fund. This aversion to risk could run in the opposite direction of the nature of early-stage investing, specifically in naming contrarian bets.

Median and average time (years) since last VC round



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

The regional GP landscape evolves to boost VC

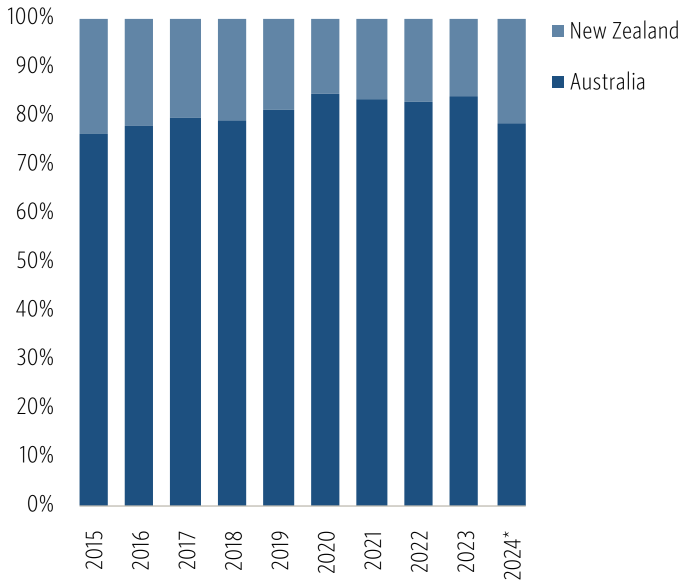
Australia

The GP landscape in Australia experienced notable growth in the past decade. With several outsized success stories, most prominently Atlassian, more capital was put to work in the ecosystem following liquidity events. The number of angel investors and micro-funds has been growing. Australia kicked off a new wave of venture starting in 2012, when Blackbird Ventures started raising its first fund. Back in 2010, Australia lacked both serial entrepreneurs and a strong interest in angel investing. In contrast to Silicon Valley, where many founders who had a successful exit would go on to launch another business, become angel investors, or eventually raise their own fund, in Australia, people who successfully built a tech company shied away from investing in next-generation tech platforms. This shifted significantly over the ensuing decade, primarily with Atlassian kick-starting the Aussie venture ecosystem.

In the early 2000s, the Australian market barely benefited from regional success outcomes, both prior to and immediately following the dot-com bubble. WiseTech Global, a logistics software business, and Atlassian, a project planning and management software, were among the largest success stories of Australian-born businesses. Both WiseTech and Atlassian bootstrapped for a long time and then raised capital from US investors at a later stage before filing for their respective IPOs. There was no meaningful Australian investor interest toward either business at the time.

The significance of these success cases was twofold: First, WiseTech's and Atlassian's achievements inspired the 2012 establishment of Blackbird Ventures, whose founding team saw the potential of creating companies in Australia that serve a global customer base. Second, outsized exits in Australia have produced a generation of angel investors. A prominent example is Atlassian's co-founder, Mike Cannon-Brookes, who has been an LP of Blackbird for nearly a decade, coinvesting with the firm and working as a member of its board of directors.[1] The Australian digital marketplaces founded during the dot-com era also contributed to the development of the regional venture ecosystem. For example, Paul Bassat, co-founder and former CEO of SEEK, an employment and education business with a global reach, co-founded Square Peg Capital in 2012, seven years after

Share of VC deal count by country



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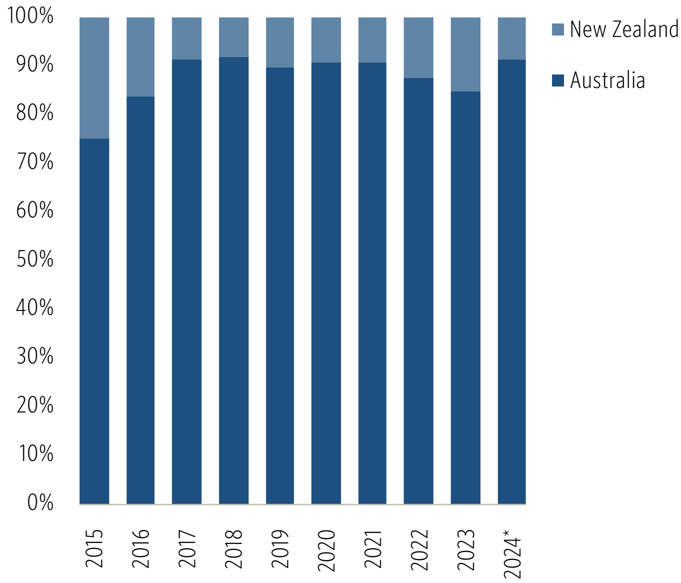
Share of VC deal value by country



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1: "Blackbird Raises $500M Fund," Blackbird, Niki Scevak, August 4, 2020.

the company was listed on the ASX. With liquidity events from Canva and capital being paid out to early employees of businesses such as Afterpay, there is increased optimism in the regional market regarding the next wave of angel investors who will help propel the dealmaking momentum by recycling capital back into the ecosystem.

The Australian venture landscape consists of two camps—one being the three largest firms and the other being a number of smaller funds—with a lack of middle ground between them. The top three players are Blackbird Ventures, Airtree Ventures, and Square Peg Capital. Square Peg is the only one among the three that is not an Australia-first fund and invests across several global markets. All three of Australia's largest VC firms were founded during the past decade or so and have played an important role in the regional ecosystem by supporting Aussie founders who historically suffered from a lack of domestic venture funding options. Blackbird Ventures closed its first fund in 2013 with a total commitment of $26.7 million. Airtree closed its first fund in 2014 with a fund size of $56.4 million. Two years later, Square Peg Fund I garnered $180.0 million worth of LP commitments. Over the ensuing decade, all three firms have raised subsequent funds while consistently expanding their scale of AUM and have backed name brands, some of which have become global businesses. For example, Blackbird Ventures' first fund invested in businesses such as Canva, SafetyCulture, Zoox, and Culture Amp. Importantly, all three big funds have invested in Canva, the online graphic design platform and one of the largest regional success stories. While the company remains private, large VCs that hold stakes in Canva have made distributions to LPs, and regional market participants consider Canva to be at the core of growing momentum in the ecosystem because it was one of the first venture-scale outcomes that took regional venture investments.

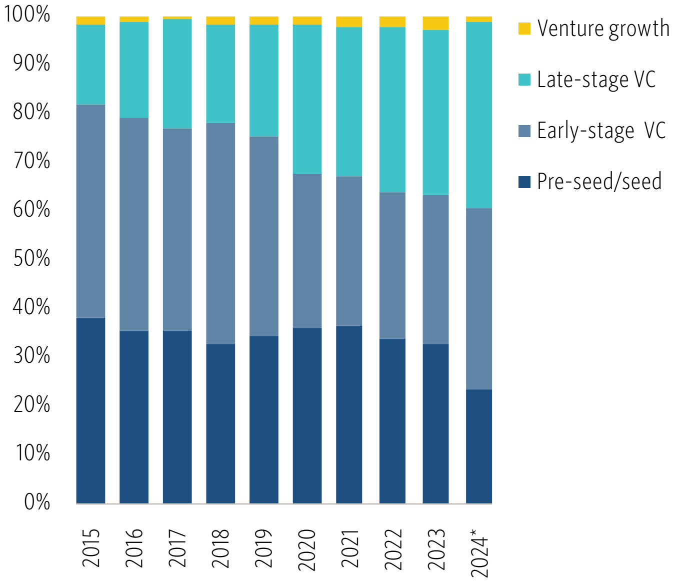
Drilling into the growth of the Australian venture market, a large portion of available funds comes from super funds, or the Australian pension funds, which have gained more confidence and familiarity with early-stage venture investments over time. Historically, super funds had taken a cautious stance toward the asset class that had yet to prove itself. During the past decade or so, super funds grew their level of sophistication, becoming more active in dealmaking. A major trend was for super funds to negotiate for lower management fees (typically well below 2%) as well as coinvestment rights, which allow those pension funds to compensate internal fund managers while lowering fees paid to third-party managers. Some of the most active super funds in venture include Hostplus, AustralianSuper, and Queensland Investment Corporation (QIC).

New Zealand

Similar to Australia in the early 2010s, in 2019 there were few options for New Zealand founders launching their own businesses to secure an early-stage venture round. Angel investors were both important and highly relevant to founders seeking financing, but most angel investors at the time were not necessarily former tech founders. As a result, a common fundraising challenge faced by New Zealand founders was that those budding businesses started with low valuations for initial investment rounds. When these startups get to a later stage of operation, the capitalization table becomes uninvestable because, by then, founders have given up too much equity. The phenomenon has started to shift, in part due to Blackbird launching its first fund dedicated to New Zealand in 2019. Blackbird expanded its footprint into New Zealand partially because the firm reportedly has been getting pitched by New Zealand founders, and as is the case with most regional expansions, it is important to establish an on-the-ground presence.

The founder-network effect in New Zealand reflects a parallel circumstance in Australia, where a flywheel was created via companies exiting and ex-founders recycling their proceeds back into the ecosystem or current founders using personal wealth to write checks as angel investors. Angel investors in New Zealand can be roughly segmented into two groups: One cohort is made up of people who generated wealth from traditional industries and engage in angel investing as a hobby. This group tends to invest in syndicates in the form of angel groups and was more important to the market as of a couple of years ago. The other group predominantly consists of individual angel investors, including US founders who spend time in New Zealand on a regular basis and coinvest with regional funds as angel investors. Apart from seeing potential for generating alpha in an emerging market where there is not a lot of competition, some US entrepreneurs are motivated to secure an investor visa in New Zealand.

Share of VC deal count by stage



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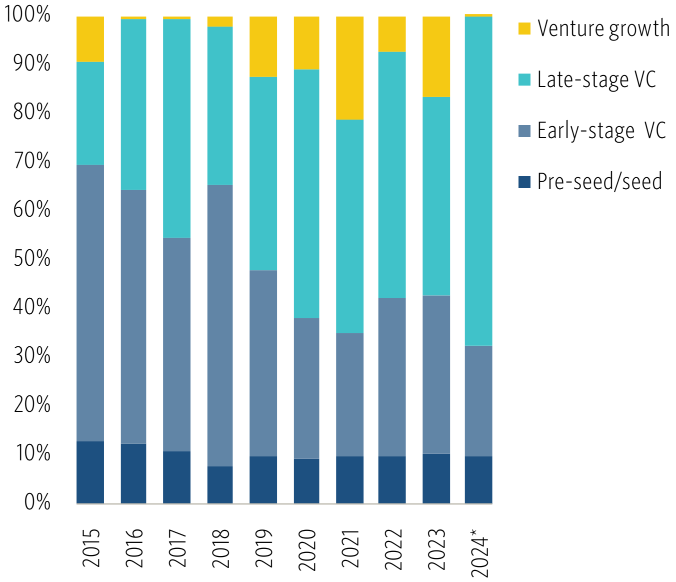
Share of VC deal value by stage



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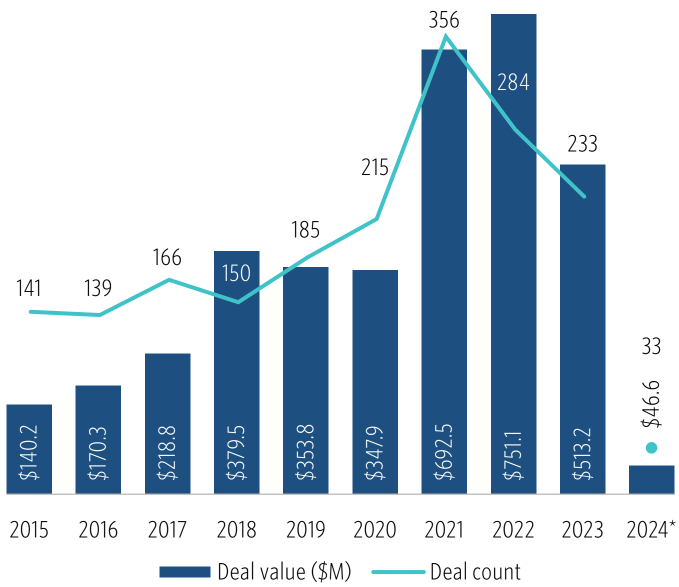
Growth in the regional founder pool

Investors in Australia & New Zealand have observed an exciting trend during the past decade: As market interest in the region has grown, so has the number of founders setting out to launch a company of their own. During 2023, 233 companies raised their first round of VC financing in the region. Though that figure is well below the 356 first financings in 2021, it is slightly higher than 2020's total and more than 25% higher than totals from any year prior.

Australia & New Zealand is a small ecosystem relative to the amount of dry powder available. Regional funds—both some of the largest players and smaller firms such as micro-funds—have sometimes needed to get more creative when looking to invest in high-quality Australian and New Zealander founders launching companies outside the region.

In contrast with the US, where there is a long-standing tradition of people leaving large tech companies to pursue a startup idea, in Australia the concept of failure has historically carried negative connotations. Over the past decade, a genuine appreciation of failing and learning from failures gradually took over the cultural mindset. Upon witnessing some of the iconic success stories such as Atlassian, Australian founders saw the possibility and potential of a large venture outcome and embraced the mentality that it is OK to fail. Founders felt emboldened to experiment with different approaches after putting in a small amount of capital and after raising capital from sources beyond friends and family.

First-financing VC deal activity



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In Australia, founders who spent a lot of time in large tech companies started to come out of those businesses and pursue their startup ideas. The pipeline of founders includes seasoned operators such as senior executives. The fintech space serves as an example of this phenomenon. The financial services sector is a complex industry, and leveraging one's deep industry insights, such as knowledge of areas for disruption and potential ways to attack existing pain points, as an executive-turned-founder can be powerful. Constantinople, a digital banking service platform for payments and fund transfers, was founded by a pair of former Westpac executives, Macgregor Duncan and Dianne Challenor. Another Australia-based fintech startup, Athena Home Loans, is a digital home-lending platform that connects wholesale funds to mortgage borrowers. It was created by two former National Australia Bank (NAB) bankers, Nathan Walsh and Michael Starkey. In both cases, each pair of founders brings their prior experience working for Australia's largest four banks, which are known as the "big four."

Given the ecosystem's nascency, Australia has only recently seen the emergence of serial entrepreneurs. Repeat founders help de-risk a budding startup, as seasoned founders can apply learnings from their prior entrepreneurial journey. This cohort, including both people who achieved smaller exits as well as those who achieved high-profile ones, is also a sourcing target of major Australian VC funds, which closely monitor the value of second-time founders in the market.

New Zealand shares a similar cultural mindset with Australia in terms of founders being historically classified as pursuing a lower-status career track. Founders in New Zealand typically start with compelling intrinsic motivation, where a person becomes fixated on tackling a problem as opposed to wanting to launch a startup first and then seeking out business ideas. Given the nascency of the market, first-time founders constitute a large proportion of the overall talent pool.

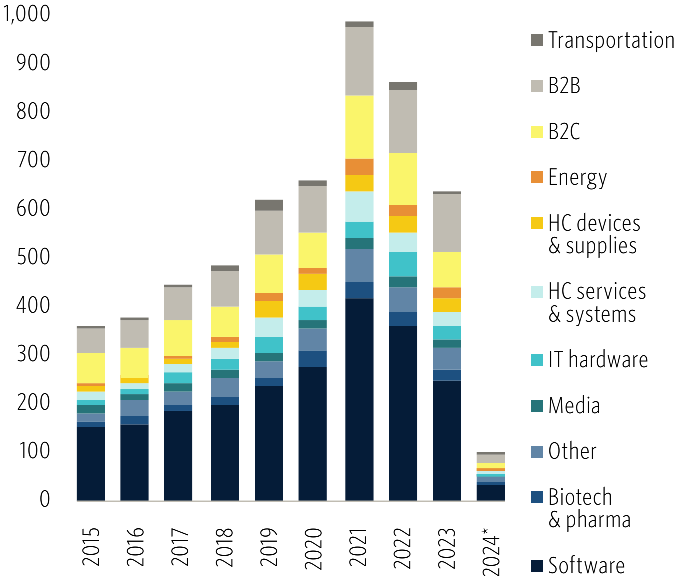
Sector-specific opportunities and challenges: Fintech, healthcare, and climate tech

Fintech

Fintech is one of the largest and strongest sectors in Australia, partially due to the country having a highly profitable financial services industry. The largest four banks in Australia include the Commonwealth Bank of Australia (CBA), Westpac, NAB, and the Australia and New Zealand Banking Group (ANZ). These banks are among some of the most profitable in the world. Australia also has a strong regulatory environment, and some would attribute the resilience of Australia's banks through the global financial crisis to its stringent requirements on the banking sector.

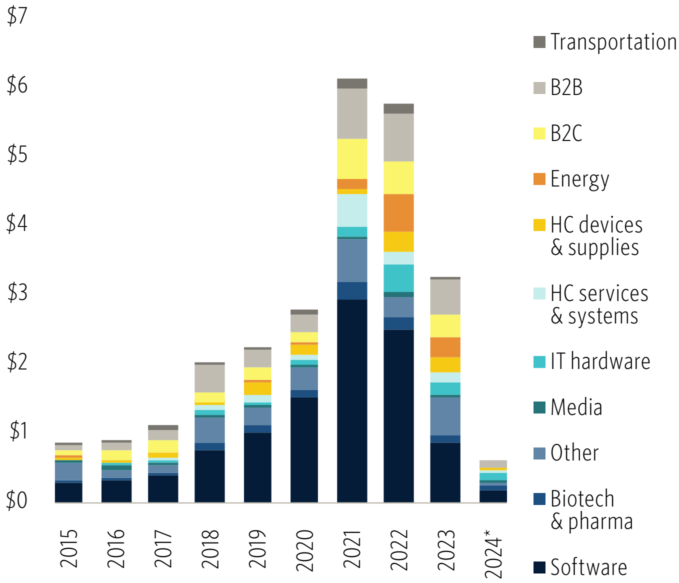
With large profit pools to attack and large opportunity sets within subsectors such as the mortgage and insurance markets, the predominant market narrative is that fintech is one of the few industries in Australia where companies can just pursue the domestic market without going offshore. This is rare, because there are not many sectors where the Australian market itself is big enough. A dissenting view raises concerns over the local financial services market being a space tightly held by select large players that is difficult for startups to break into. In the banking and insurance space, a handful of large incumbents have a predominant market position. Historic tensions between large incumbents and regulators that tried to push those established players to open more space for competition illustrate the challenge for startups to set foot in the space. So far, there have not been many successful insurance technology companies in Australia, with Cover Genius and Open being two exceptions. To grow into a large business in the financial services industry in Australia requires patient

VC deal count by sector



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

VC deal value ($B) by sector



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

capital that supports a budding startup to cross the chasm before gaining traction. Alternatively, startups may opt to enable incumbents by supporting their existing business, thereby establishing themselves in the market.

Unlike general SaaS businesses, Australian fintech startups do not typically hold a US-first approach. Airwallex serves as a prominent example. The company initially focused on moving money into and out of Australia and Hong Kong and then expanded its functionalities over time. While the company generates revenue in the US, it is not a US-focused business. Airwallex demonstrates how Australian fintech companies do not need to focus on the US to achieve a large outcome. Many people would consider the Australian financial services market analogous to that of the UK, Canada, and Singapore, places where Australian startups tend to see more success when expanding, because those countries share a similar regulatory framework.

Zeller, on the other hand, is an example of a fintech company focused on the domestic market. The bank, which caters to small and medium-size businesses, has a large total addressable market within Australia, as the sector was historically poorly serviced by incumbents. The big four banks have been very strong at retail banking, being early in their push into digital applications and providing smooth mobile experiences for consumers. However, business banking is a different story, where the enterprise customer experience historically has not been the core expertise or business focus for the big four. This void provided an appealing opportunity set for fintech startups.

Foreign exchange was another space within the financial services realm that was ready for disruption. Foreign exchange has traditionally been a pain point for businesses, which translates into a relatively lower barrier of entry for startups. Fintech companies can provide better exchange rates by employing a digital-first approach that is both lower friction and more cost-effective. Foreign exchange has a strong use case in Australia, where many businesses and individuals need exchange services for engaging in cross-border transactions or for conducting business overseas. This is what got Airwallex started, with the company focusing on small-business international banking, using foreign exchange services as an entry point and gradually expanding its suite of offerings, including card issuing.

Room for disruption lies in industries or subsectors that traditionally struggled with innovation. Within fintech, mortgage lending is also an exciting space for innovation. Australia has some of the most expensive property markets in the world relative to income and historically had a deep penetration of home ownership, including both residential and property investments. A lack of stability from short-term-oriented rental experiences with six- to 12-month rental contracts provides further motivation for people to own homes. In addition, most Australians live in just five cities, which has driven up property prices. The combination of those characteristics points to Australia having ample space for disruption within the mortgage sector. Some consider mortgage as a defensive solution, easier to disrupt because it tends to be more structured and simpler with a limited number of mortgage products that are served. Athena Home Loans, a digital mortgage brokerage, serves as an example of a fintech startup tackling the mortgage space. The company is able to offer more attractive mortgage rates by securing financing from entities other than banks.

Healthcare

Healthcare is another popular sector in Australia, where many founders are building healthcare companies such as healthtech software and service-delivery businesses. Australia has a highly regulated healthcare industry, which has drawn ample public funding. A strength of the regional market is that Australia is an attractive spot for human clinical trials, which come after the initial research & development phase due to the country's first-rate medical institutions, diverse population, high data quality, cost-effectiveness compared with the US, and easier regulatory environment for clinical trials.

While many founders within the healthcare space aspire to expand to the US, they lack a track record of successful US expansion to build upon. This is particularly true considering it has historically been challenging for any global entity to break into the US healthcare ecosystem.

Cleantech and climate tech

Cleantech and climate tech are top investment areas in the region, particularly given that Australia and New Zealand are both great places for solar and wind generation. Areas of strength in the Australian market include the country's wealth of renewable energy resources and leadership in areas such as rooftop solar. Australia is one of the first countries in the world to face a significant "duck curve," where energy prices can go negative in the middle of the day and then surge in the late afternoon and evening. Natural disasters such as wildfires and floods provide use cases that call for climate solutions by startups, many of which have become more akin to software businesses, using AI-driven models to boost efficiency or create new infrastructure.

Having a deregulated energy market presents a positive signal for companies looking to develop commercially attractive propositions in the space. It speaks to commercial rationale being a driving factor in the Australian energy market, as the energy sector in many parts of the world is owned and controlled by the state—a model where the government oversees energy generation, distribution, and retailing.

Over the past couple of years, the cleantech and climate tech space in Australia experienced rapid expansion, partially attributable to government efforts. Virescent Ventures, an independent climate tech fund in which the Clean Energy Finance Corporation (CEFC) has a 30% holding, is a leading Australian venture fund in the climate space. The fund was formed about seven years ago at a time when there was almost no private sector appetite or capital going into climate venture in Australia. The CEFC, the world's largest green bank with $30 billion marked for investment into areas pertaining to reducing emissions, recognized the need for funding next-generation technologies to achieve a zero-emissions future. Over the ensuing years, the sector started to take off. Virescent Ventures was later spun off to attract more private sector investors into Australian climate tech via the early-stage venture fund, including international and domestic coinvestors.

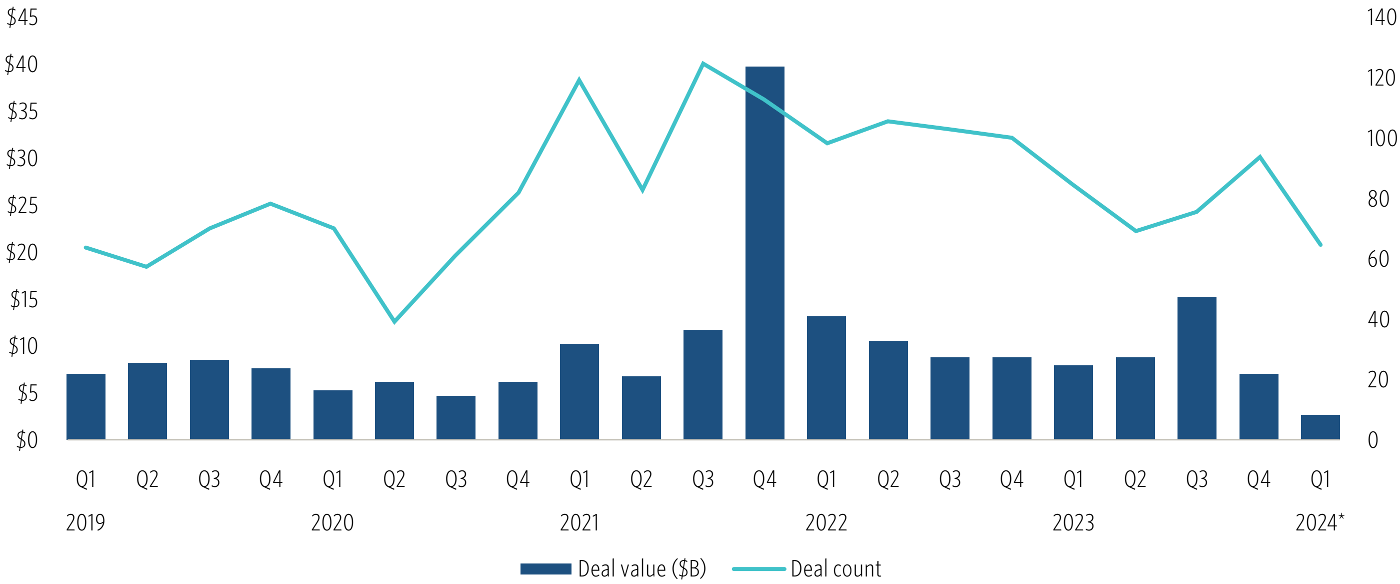
Rate increases pressure PE dealmaking

PE dealmaking has trended downward over the past couple of years, in line with global activity trends. However, PE dealmaking in Australia & New Zealand has remained well above the levels reached before the near-zero interest rate period of 2021 and early 2022. Though Q1 got 2024 off to a slow start in terms of total deal value, PE deal count for the quarter was relatively strong at 65 completed deals. Assuming upward adjustment to the data will come with further deal collection, 2024 should reach the activity levels of 2019 and 2020 despite the significant increase in the cost of capital.

Buyouts have been hit the hardest. Just 12 such deals were captured during the quarter, which would pace the year to be the lowest in the past decade. Growth equity deals, on the other hand, had a strong quarter and are set to reach near the 2021 high.

In Q1, the largest deal in Australia was the announced $263.3 million investment in Ansarada. This relatively small "largest deal" is a true indication of the depressed dealmaking market we have seen in the region. A total of just $885 million was invested or announced for buyouts during the quarter, just 3.3% of the total invested in the region during 2023. Since 2015, buyouts have averaged

PE deal activity by quarter

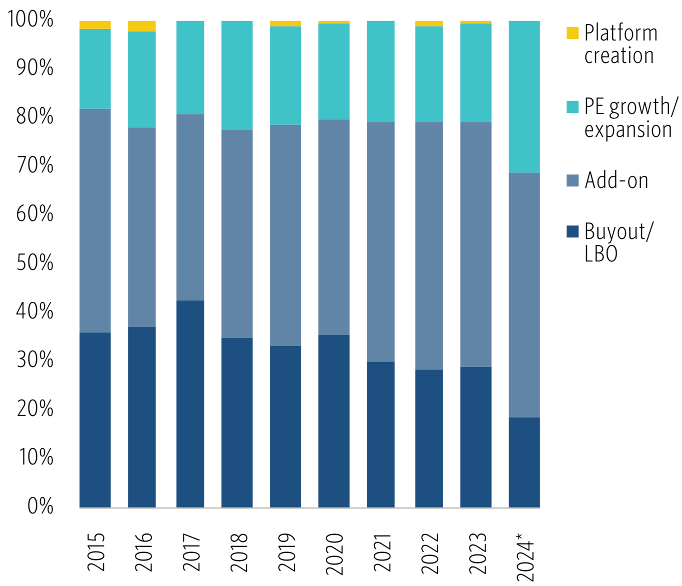


Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

PE deal activity

Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Share of PE deal count by type



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

around 70% of annual PE deal value in Australia & New Zealand. The added debt costs of the new regime have driven buyouts' $885 million total to just 31.2% of 2024 deal value.

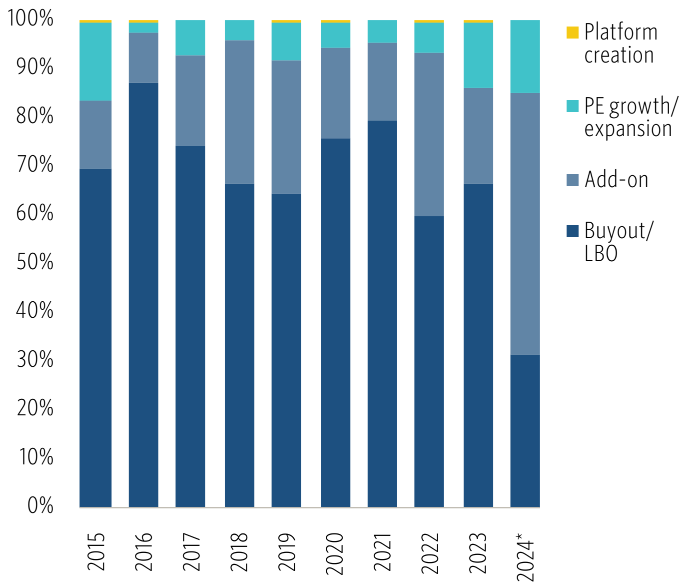
In early May, Australia's central bank noted that rates would remain higher for longer, though there was no immediate need for further rate hikes, echoing a similar sentiment to that of the US Federal Reserve. A single quarter does not necessarily denote a trend, but the reliance on leverage to complete deals certainly will continue to pressure buyouts.

Because of the higher-rate environment, private credit funds have risen in popularity, adding another source of funding to the Australian market. Despite pulling back from the leveraged lending market, Australia's banks continue to corner a large portion of the lending market, which has kept spreads relatively low. However, in February, Ares raised a $1.7 billion credit fund for Australia & New Zealand that will add further capital to the market to boost dealmaking.

IT draws growing investment

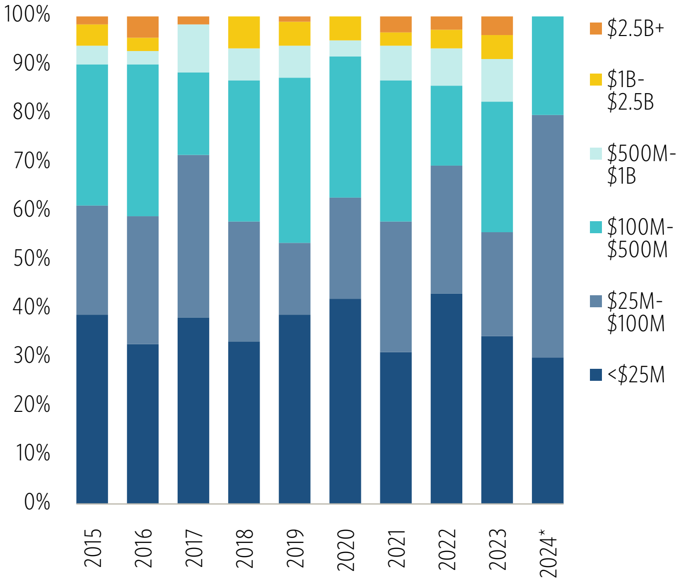
IT has been a fast-growing sector within Australia and has captured a growing amount of PE investment. Despite the slow start to 2024, more than one-third of completed PE deals in the region were in the tech sector. IT continues to expand quickly with the demand for software and cloud services rising.

Share of PE deal value by type



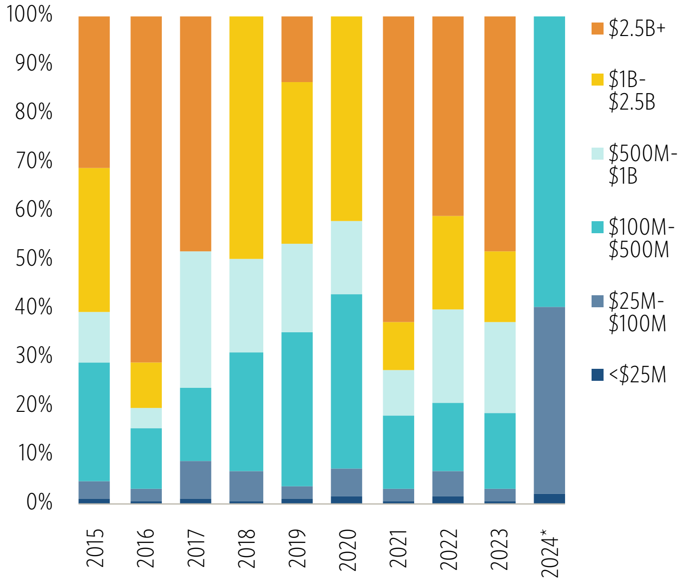
Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Share of PE deal count by size bucket



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Share of PE deal value by size bucket



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

With 23 IT deals completed through March 31, 2024, activity is pacing to increase modestly from 2023's totals. The mark would represent the third-most-active year for IT PE deals. Less than a decade ago, IT accounted for just over 10% of completed deals. In Q1 2024, it represented 35.4%. Along the same lines, the announced buyout of Ansarada marked the largest transaction of the quarter.

The steadiness of PE investment in IT denotes its ubiquity as well as the use of small transactions in IT services to drive inorganic growth during a time of investor-friendly market pricing. Globally, the adoption of AI by enterprises of all scales has driven an increased need for data, security, and software tools for implementation. In the US, PE activity in IT has grown into the second-most-active sector by both overall dollars and number of deals.

Australia's tech ecosystem has grown significantly in recent years, likely leading to the drive in dealmaking activity in the space. Tech has been one of the fastest-growing sectors in Australia, reaching AU$167 billion and growing 80% in just five years, according to the Australian Trade and Investment Commission.[2]

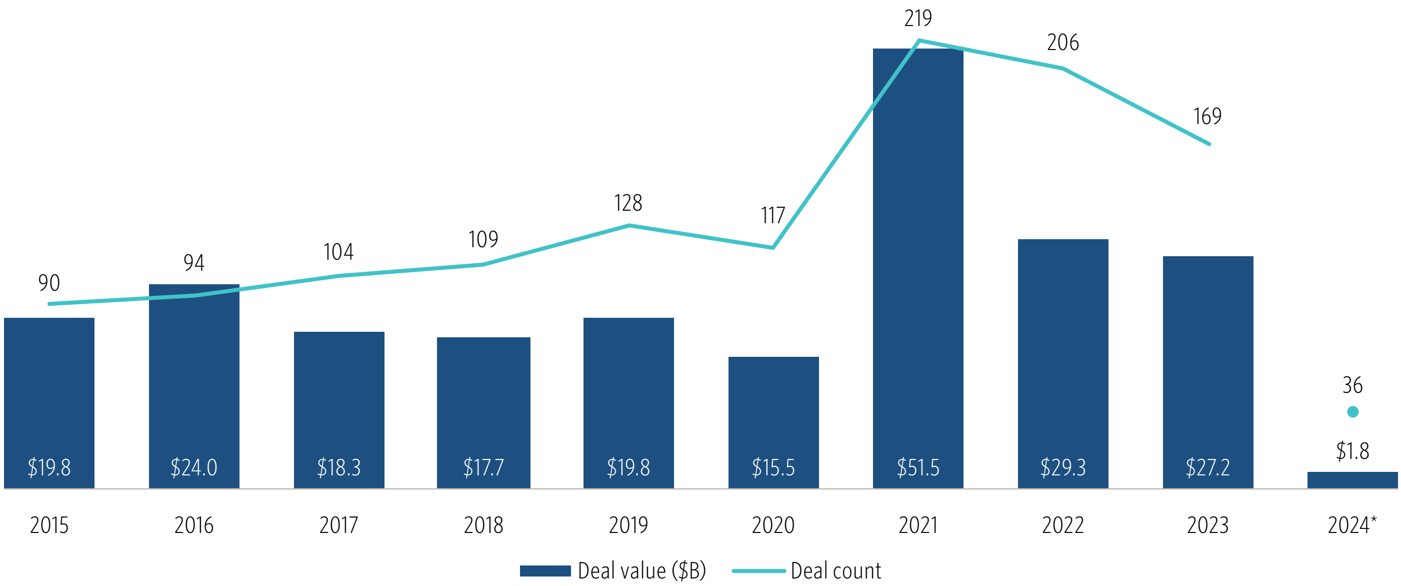
Foreign investment in PE

In large part due to the nascency of the Australia & New Zealand ecosystem, foreign investment has been an important piece of activity. From 2015 to Q1 2024, nearly half of all PE deals and 70% of PE deal value have come through financings with foreign investor participation. A large portion of those investors have been US based. With global expansion taking many companies toward the US, the trend of PE firms providing that growth capital or making an acquisition as an add-on has become increasingly common. In Q1, 24 PE deals in Australia had a US-based investor, pacing the year for an increase over totals from 2023.

The lack of large, outsized funds in Australia & New Zealand provides the opportunity for investors to enjoy a less competitive market for large deals. Datasite, a US-based data room provider, acquired Ansarada to expand its footprint and purchase Ansarada's product suite. Foreign investor interest in the Australia market has held steady during the slowdown at a level well above pre-2021 figures.

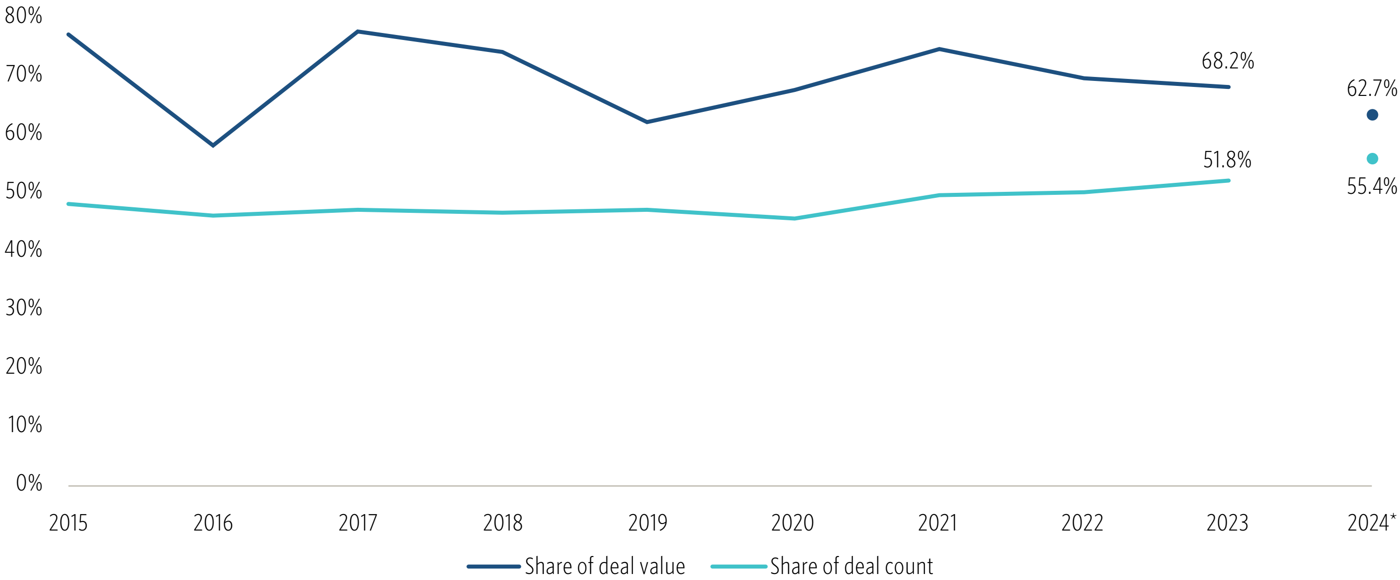
2: "Why Australia: Digital Technology," Australian Trade and Investment Commission, February 2023.

PE deal activity with foreign investor participation



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Share of PE deal activity with foreign investor participation

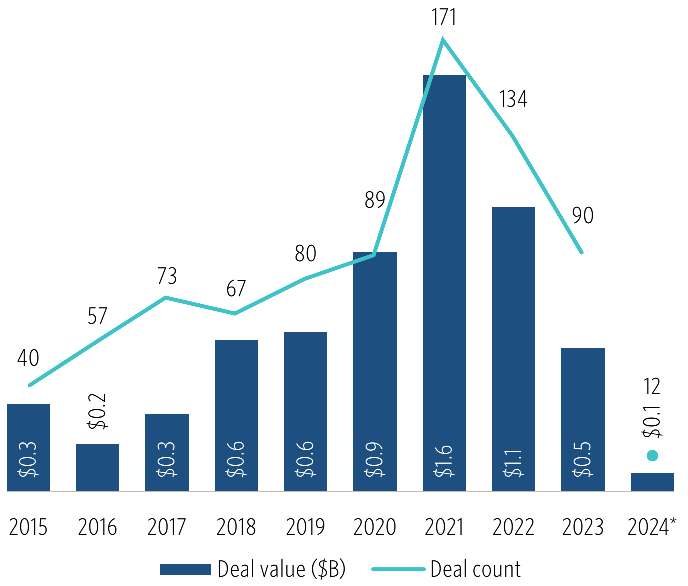


Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

SECTOR SPOTLIGHT

VC in fintech

Fintech VC deal activity



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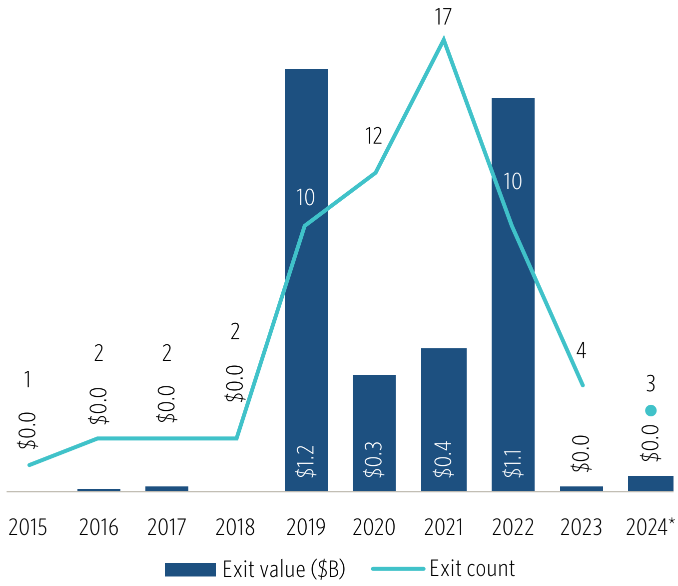
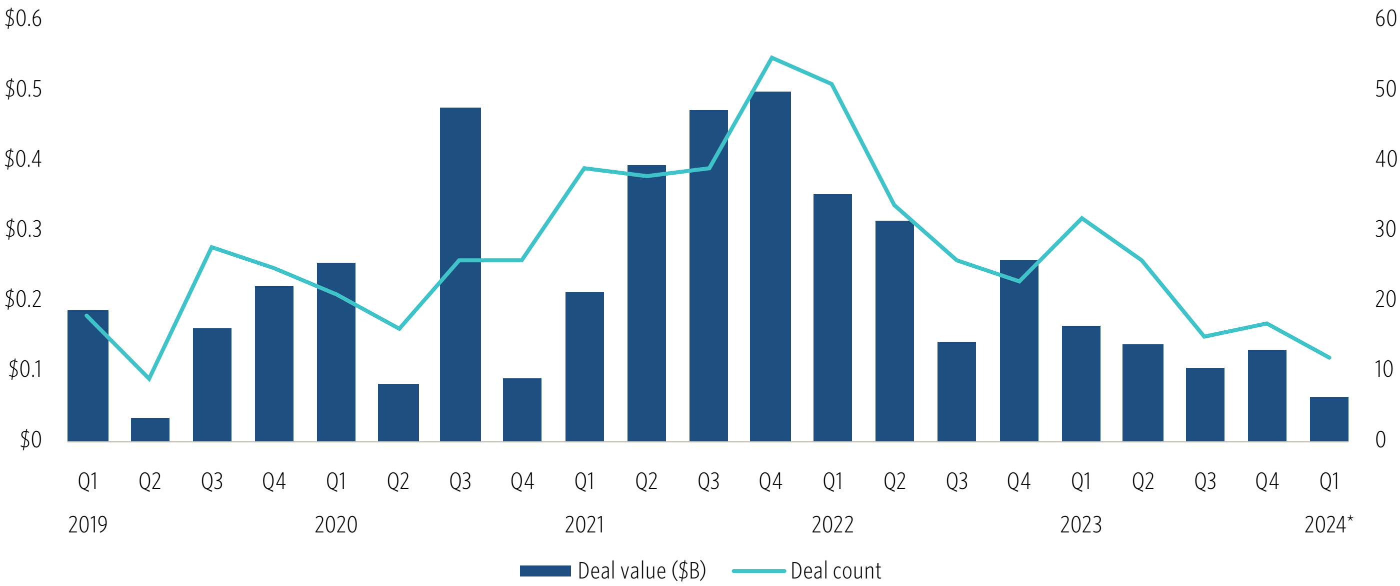
Fintech VC exit activity



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Fintech VC deal activity by quarter



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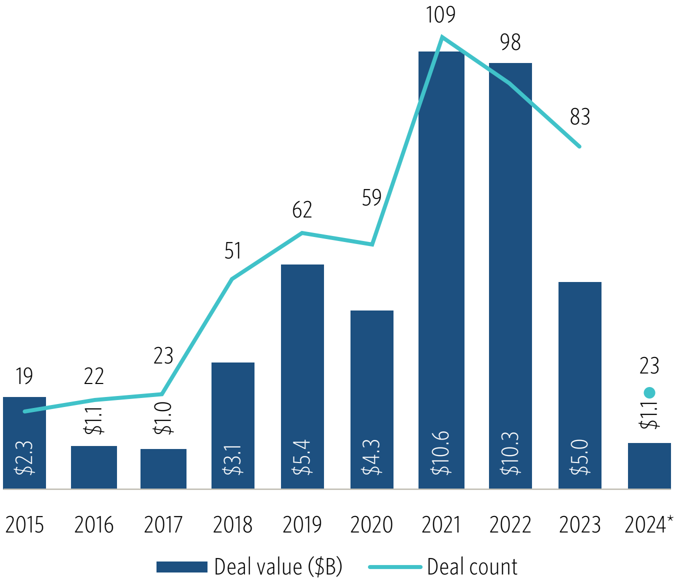
SECTOR SPOTLIGHT

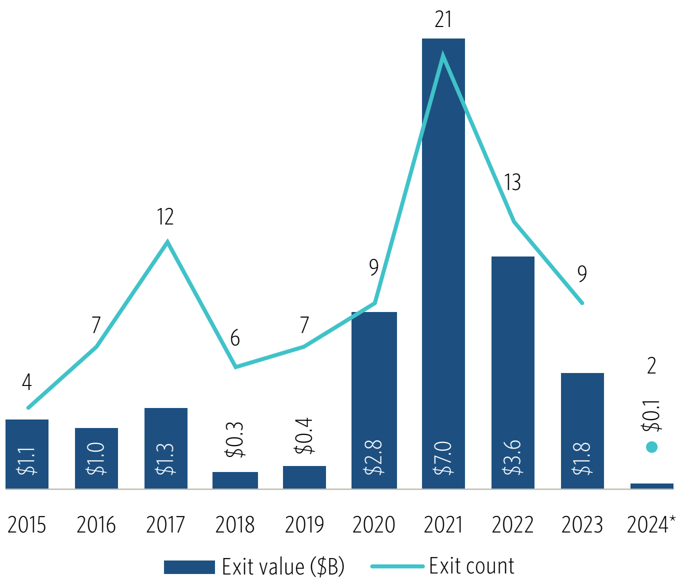
PE in IT

IT PE deal activity



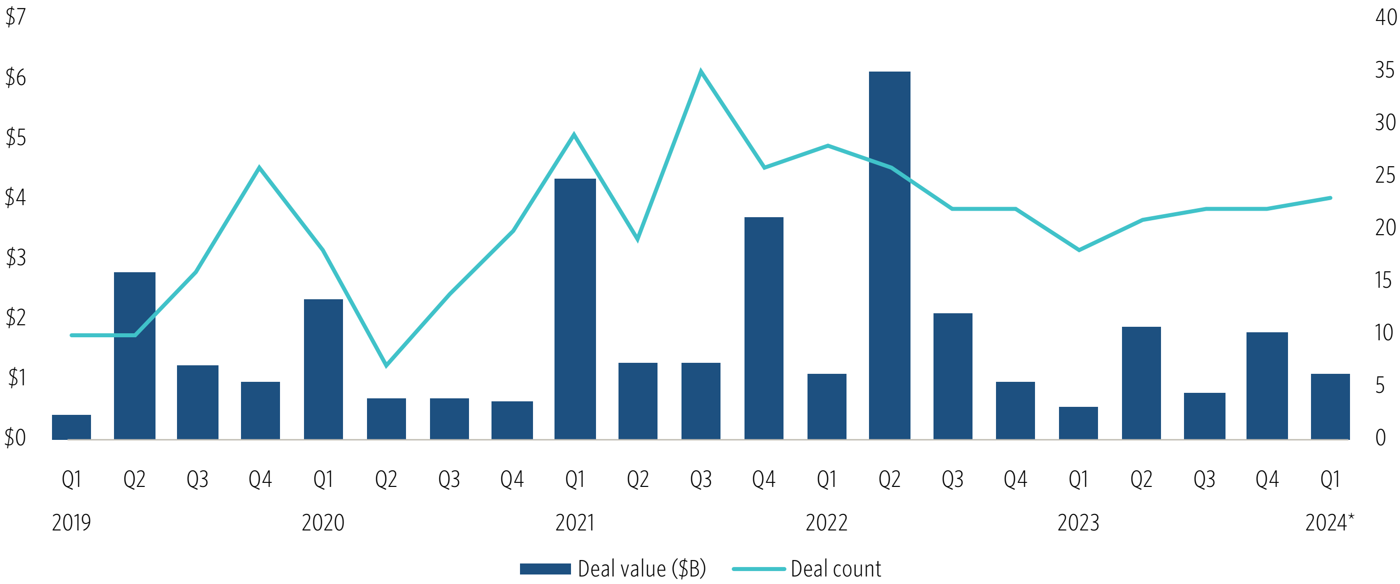
Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

IT PE exit activity



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

IT PE deal activity by quarter



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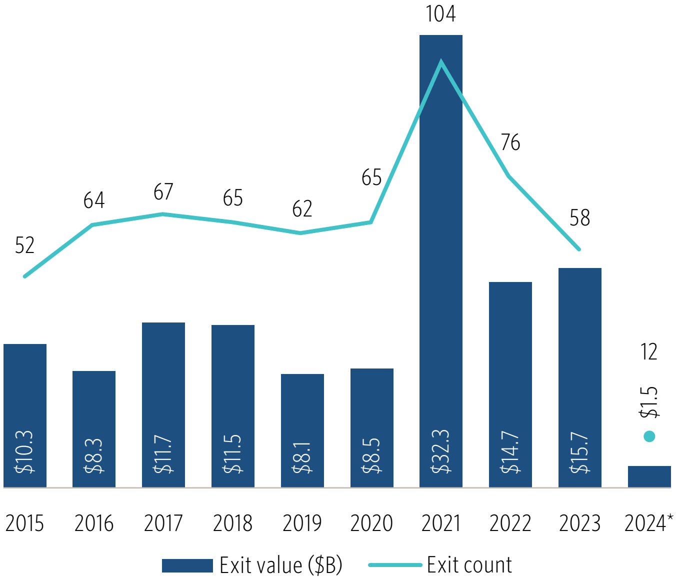
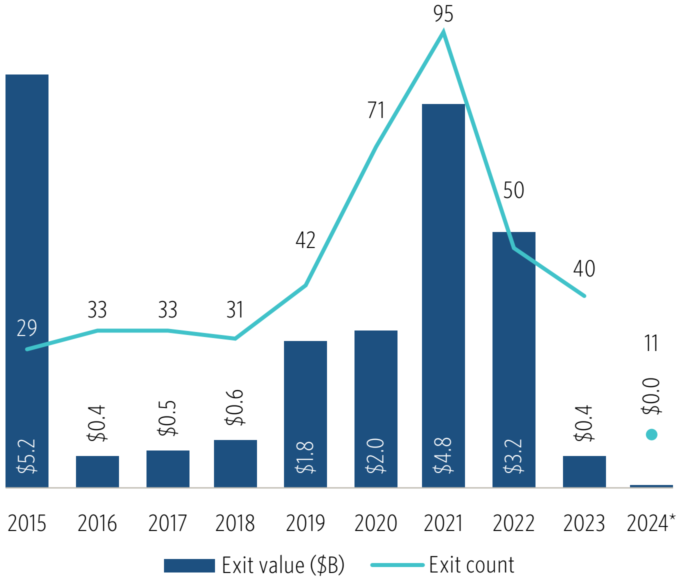
Exit activity

PE exit activity



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

VC exit activity



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Mismatched return profiles

Exit activity is relatively low within the Australia & New Zealand market. The 40 completed VC exits in 2023 were less than half the number completed in 2021. PE exits were similarly down, with the 58 notched in 2023 just 55.8% of the 2021 total. Through Q1 2024, there have been just 12 completed exits for PE investors.

For PE, the recent dearth of exits is also a macroeconomic issue, with higher borrowing rates also increasing the costs. Even still, the $15.7 billion in exit value generated in 2023 was the second highest for any year in the past decade. The $6.5 billion buyout of Active Utilities drove a significant portion of that exit value, though four other deals generated at least $700 million in value for shareholders. Q1 has started the year off at a slow pace with just $1.5 billion in exit value, but the steep decline is a global challenge created by increasing uncertainties.

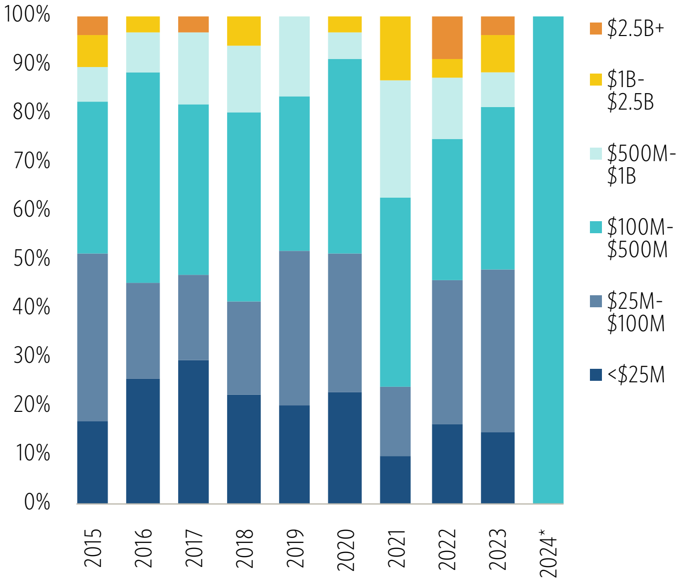
For VC-backed companies in Australia & New Zealand, the ability to drive VC-like returns is challenged by the size of the market. There is a high need for companies to expand abroad to deliver the outsized returns desired. A typical enterprise SaaS business or consumer tech company would have a difficult time generating the revenue needed to drive a fund-returning exit. Because of this, many tech startups have an eye toward expansion, particularly in the US, from the outset of the company.

This, juxtaposed with the high amount of dry powder in the market, creates a mismatched return profile where few outsized exits can be generated for a large amount of investment. Dry powder has been drawn down over the past couple of years, but still, nearly $4 billion is available, with 41% of that total being held by funds under $250 million and underwriting with high return expectations.

Though they have yet to exit, Canva and Airwallex have grown into the next big exits for the Australian environment. Canva's design software is now used globally by more than 170 million monthly users (nearly seven times the population of Australia), and the US has become one of the company's largest markets. That growth is reflected in Canva's massive valuation of $40 billion in a primary round and, more recently, $26 billion on the secondary market. Airwallex's customer base naturally includes non-Australian companies, targeting those active in cross-border payments, and now has a market valuation of $5.5 billion.

Exits by these two companies alone would drive a vast distribution to investors. A $40 billion exit from Canva would deliver more than twice the total exit value generated by Australian startups since 2015, marking a watershed moment for the ecosystem much in the way that Atlassian's $4 billion IPO did in 2015.

Share of PE exit count by size bucket



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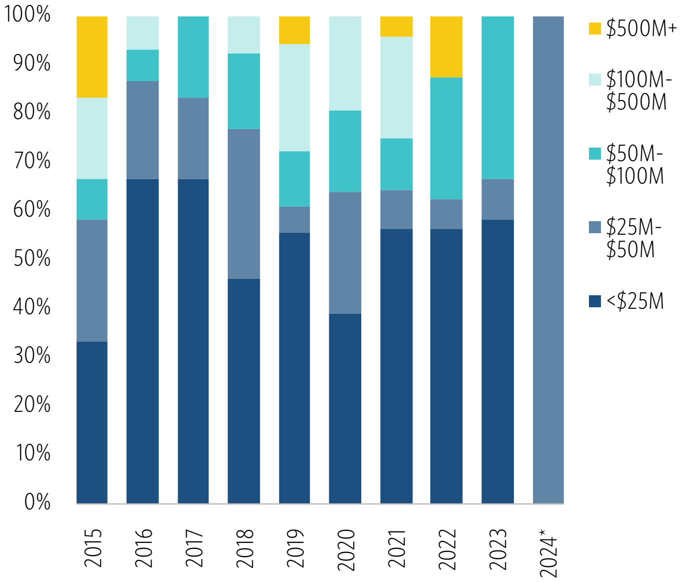
Share of VC exit count by size bucket



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

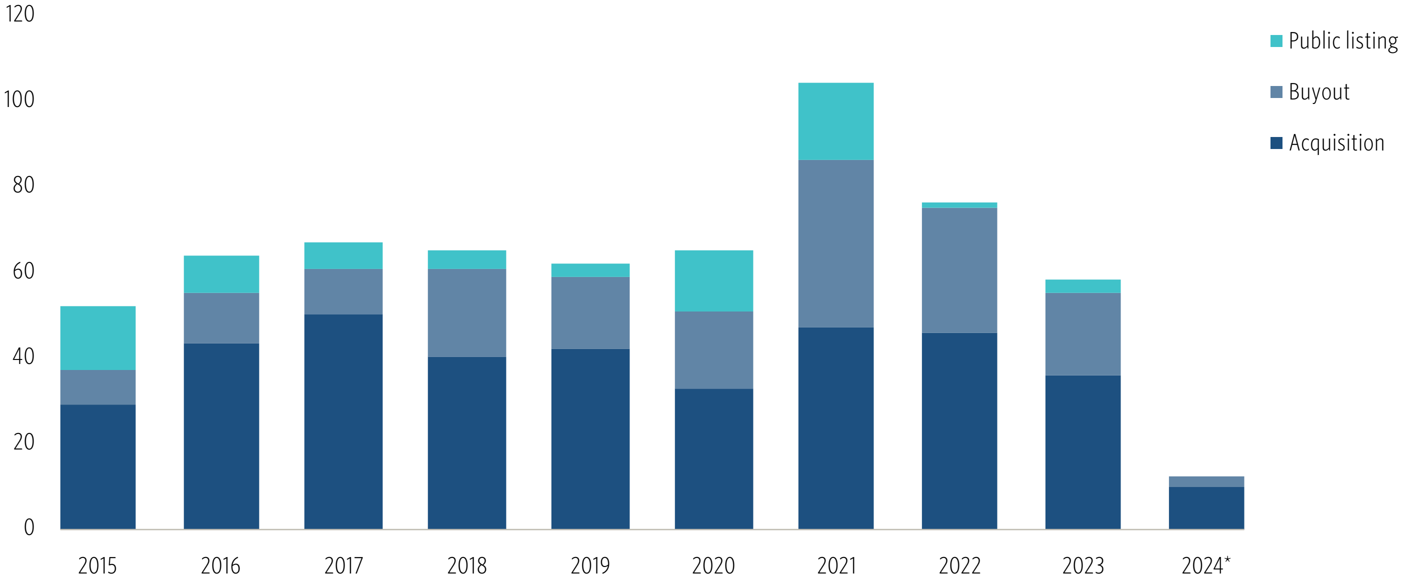
ASX versus overseas listings

As the Australia & New Zealand venture market grows and exits increase in size, one of the potential challenges will be that domestic exchanges likely will not offer the levels of liquidity needed. Over the past decade, the largest VC-backed IPO on the ASX valued the company (SiteMinder) at $932 million. At its $40 billion valuation, Canva would hold a top-15 market cap on the ASX.

However, because of the expectation that many VC-backed companies will need to expand beyond the region's borders, listing on an overseas exchange may not be abnormal. Atlassian's 2015 IPO on the Nasdaq exchange in the US was a huge success for the company and for the Australian ecosystem. Though the company was not venture backed in the traditional sense (VC investors came on to the capitalization table through secondary transactions), the company raised $462 million at a valuation of more than $4.3 billion. Because of its global ambition, Atlassian likely would have been a recognized name (with strong financials and growth) in any market, as its product was used in 160 countries at the time.

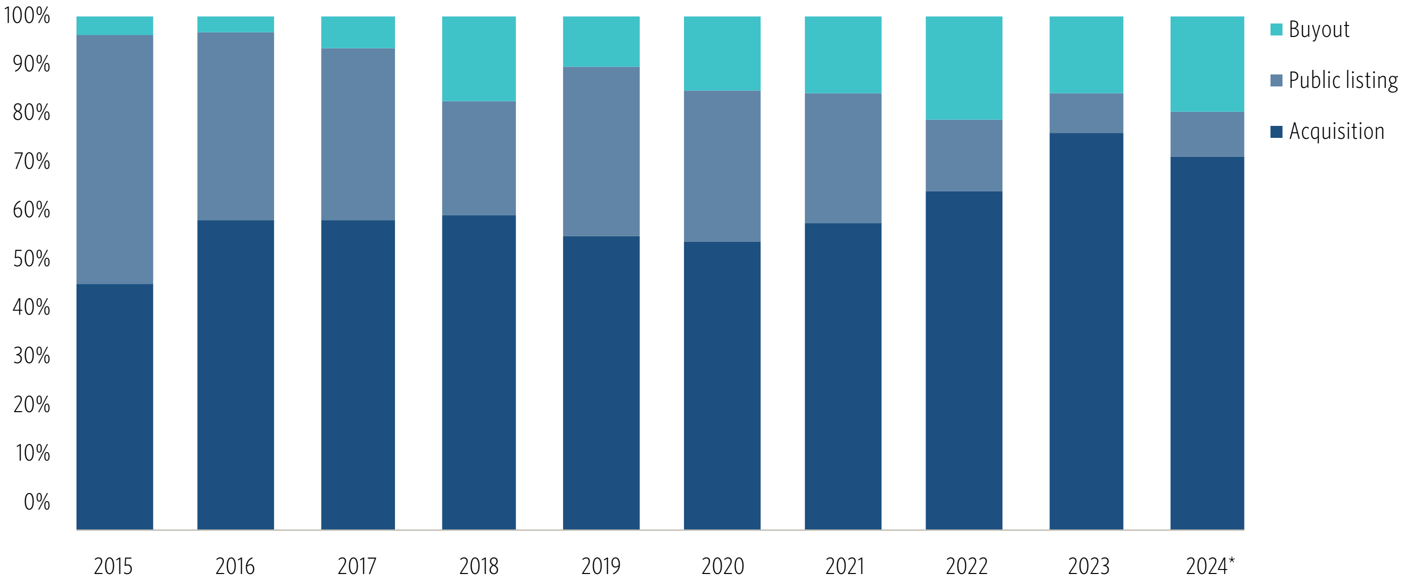
The ASX itself offers much lower levels of liquidity than exchanges in the US or other large markets. Many VC-backed companies do choose to exit through this exchange, however. Since 2020, 56 VC-backed companies have gone through a public listing and nearly all have listed on the ASX, though just one of those listings generated an exit above $300 million. As venture grows within the region and companies break out to deliver high VC returns, larger and more active exchanges around the world will likely become a more common choice.

PE exit count by type



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

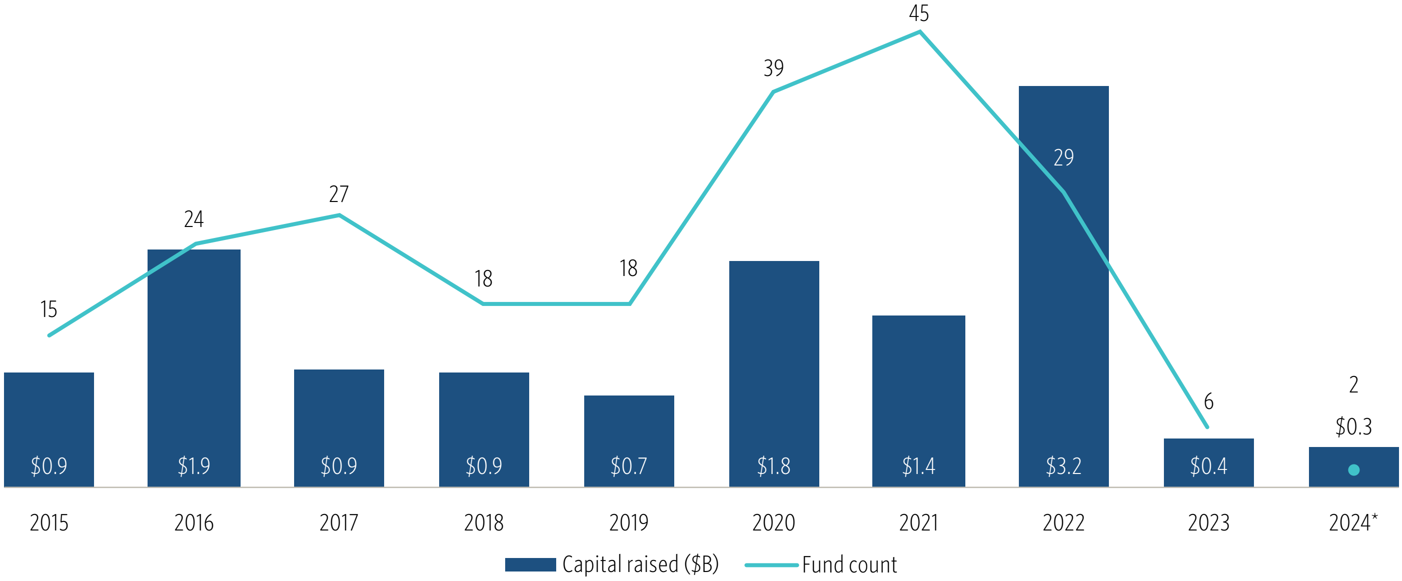
Share of VC exit count by type



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Fundraising activity

VC fundraising activity



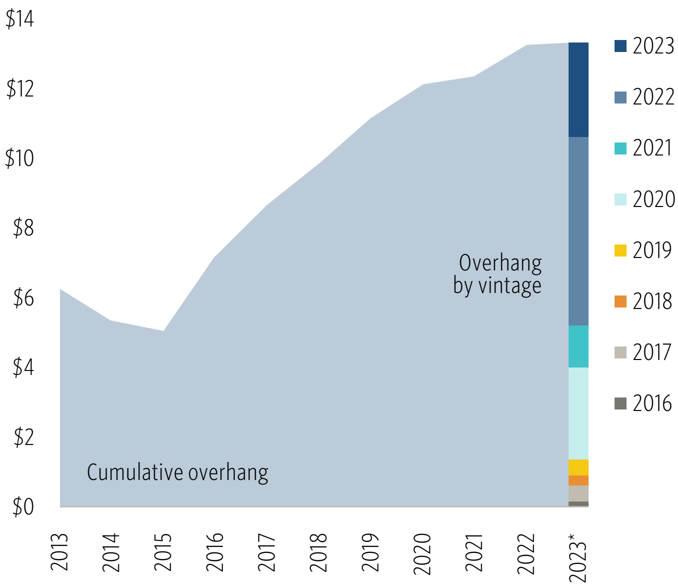
Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

VC fundraising is thin, but timing factors into recent data

In general, the VC market in Australia & New Zealand is made up of a few large funds and a large number of small firms. Blackbird Ventures, Square Peg Capital, and Airtree Ventures have each raised funds of at least $500 million along with a swath of other funds, taking each of their AUM into the billions. After those three, there is a wide gap in fund size. More than 80% of the funds raised in Australia & New Zealand since 2015 have been smaller than $100 million (including some funds from those three large firms). This creates a glut of investors and capital at the early stages of VC and few domestic investors aside from super funds to drive growth investment.

Australia & New Zealand VC fundraising has been thin over the past year or so. LP hesitancy of the venture strategy over the past couple of years has been a global challenge, but the region's relative nascency and lack of a deep LP base within its borders have created a difficult environment. Eight venture funds closed over the five quarters from January 2023 through Q1 2024, amassing just $700 million across them.

Private capital dry powder ($B)



Source: PitchBook • Geography: Australia & New Zealand
*As of September 30, 2023

The total of eight funds is a far cry from the 45 vehicles closed in 2021. As a small, nascent market, Australia & New Zealand fundraising figures are subject to quite a bit of volatility due simply to timing factors. For instance, more than half (55.5%) of those 45 VC funds raised in 2021 were from first-time managers. Raising a second fund in quick succession two years later is remarkable during any market climate, but the current stagnancy of global fundraising would make that an amazing feat in 2024. It may take a few more years due to both the depressed appetite from LPs and the slow dealmaking environment that has kept uncalled capital high.

In total, from 2020 to 2022, 58 new managers raised venture funds in the region, significantly increasing the number of capital sources for startups. Our research has shown that the number of first-time managers able to raise a second fund has been reduced by a third. At that rate, the Australia & New Zealand markets will add roughly 40 second-time funds over the next couple of years, adding additional experience to the market as it grows.

Top 10 VC funds (2015 to Q1 2024)*

Fund	Close date	Fund value ($M)	Fund type	Location	Manager(s)
New China Healthcare Opportunities Fund	December 31, 2016	$899.7	VC	Melbourne, Australia	Australia Future Fund
Airtree Aussie VC Fund	February 1, 2022	$700.0	VC	Sydney, Australia	Airtree Ventures
Blackbird Ventures 2022	November 3, 2022	$650.1	Early-stage VC	Surry Hills, Australia	Blackbird Ventures
Square Peg 2022	October 26, 2022	$550.0	Early-stage VC	Melbourne, Australia	Square Peg Capital
Square Peg Fund IV	December 15, 2020	$450.0	Early-stage VC	Sydney, Australia	Square Peg Capital
The Biomedical Translation Fund	January 1, 2017	$366.9	Late-stage VC	Sydney, Australia	Bioscience Managers, Australian Government (Landing Pads)
Blackbird Ventures 2020	August 3, 2020	$352.1	Early-stage VC	Surry Hills, Australia	Blackbird Ventures
SEEK Growth Fund	December 31, 2021	$328.8	Late-stage VC	Cremorne, Australia	SEEK
Airtree 2021 Opportunities Fund	February 1, 2022	$322.4	VC	Sydney, Australia	Airtree Ventures
St Baker Innovation Fund I	December 31, 2015	$300.0	VC	Brisbane, Australia	StB Capital Partners

Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Limited LPs

LPs within Australia & New Zealand are a small group despite and because of the overwhelming size of the superannuation funds within the countries. In the early days of growth for the regional venture market, especially in Australia, super funds were major pieces of the LP base. Over time, the super industry has seen many of its funds grow too large to invest domestically.

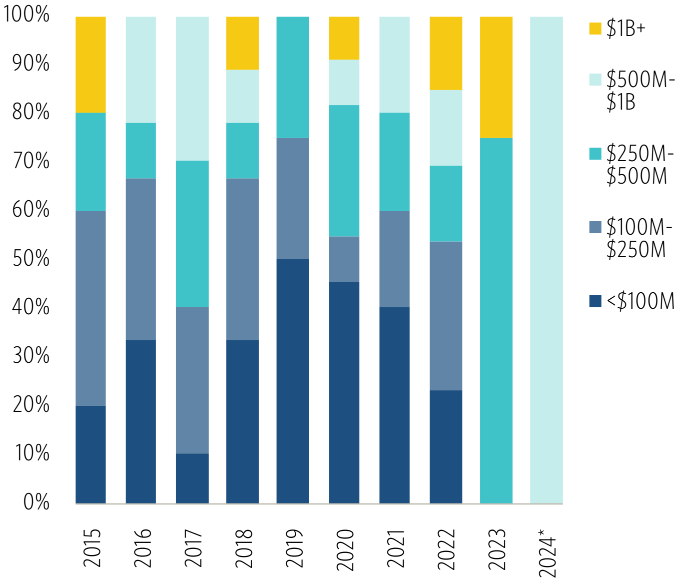
Still, super funds are important pieces of the LP market. For one, the limited number of LPs in the region makes it difficult to hit fund targets without large slugs of commitments coming from a super fund. However, one of the challenges has been the greater sophistication, or rather the supers' greater comfort with private investment, increasing their negotiation on fees and coinvestment rights. The right to invest alongside the fund enables super funds to participate in the same strategy while bypassing paying fees.

In general, super funds operate relatively conservative strategies as to not fall out of line from a returns perspective. Australian regulations enable public view into super fund performance, regardless of if someone is an investor. Essentially, poor-performing funds and those with high fees can be shamed, therein likely losing capital allocation. Super funds must disclose costs and fees of their investments as well. With most of their investors paying fees of 1.5% or less, the "two-plus-20" structure of most PE and VC funds tightens their leeway.

At the opposite end of the LP size spectrum, the startup ecosystem may be squeezed further by a potential change to accredited investor guidelines. At the moment, individuals making AU$250,000 or who have assets exceeding AU$2.5 million are allowed to invest in private securities and participate as LPs. That rule is up for review, with an increased hurdle poised to negatively impact the ability of funds to raise capital from individuals and for startups to raise capital from angel investors.

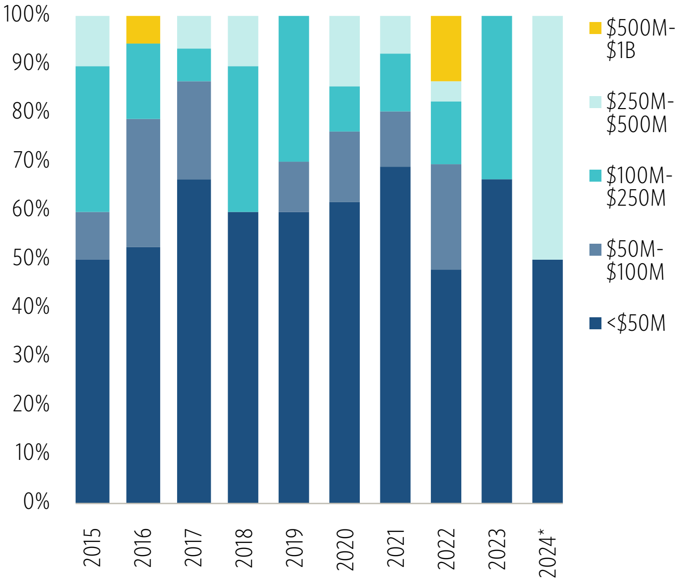
Broadly speaking, returns from the first set of VC funds in the region are just now beginning to funnel back to LPs. Large secondaries have returned hundreds of millions to early investors in Canva, setting the stage for a recycling of capital back into new VC funds. Because of the slow exit environment in Australia and the challenges that global VCs are finding in attracting new LPs in the current market, the LP base for VC funds in Australia remains a slowly growing population.

Share of PE fund count by size bucket



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Share of VC fund count by size bucket



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

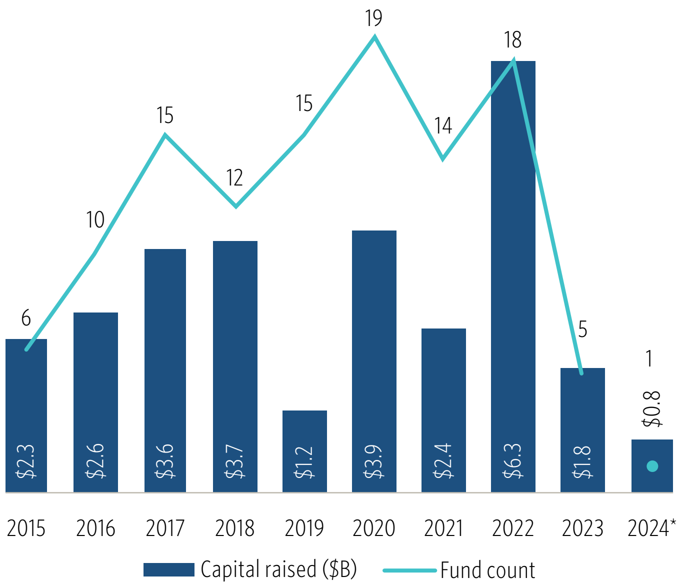
PE fundraising growth is slow

PE fundraising in Australia & New Zealand has been on a slow and steady growth trajectory over the past decade. The region topped out at $6.3 billion raised across 18 PE funds in 2022. The number of domestic firms remains relatively limited, personified by the high amount of foreign investor involvement in the region.

Though the PE market has been growing, 55% of the funds closed in the past decade are smaller than $250 million. The small size of the majority of PE funds is an indicator of the smaller opportunity set available within the countries. With few large deals occurring, the need for large funds is much lower than in larger markets. Since 2015, just six funds of $1 billion or more have been raised.

With just a single PE fund closed in Q1 of this year, 2024 seems likely to fall far short of the highs from a few years ago. Dry powder in the region remains high at just under $10 billion. That figure has been relatively flat since 2019.

PE fundraising activity



Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Top 10 PE funds (2015 to Q1 2024)*

Fund	Close date	Fund value ($M)	Fund type	Location	Manager(s)
BGH Capital Fund II	March 1, 2022	$2,572.3	Buyout	Australia	BGH Capital
BGH Capital Fund	May 11, 2018	$1,977.8	Buyout	Australia	BGH Capital
Pacific Equity Partners Fund VI	July 23, 2020	$1,767.9	Buyout	Australia	Pacific Equity Partners
Pacific Equity Partners Fund V	September 4, 2015	$1,524.8	Buyout	Australia	Pacific Equity Partners
Pacific Equity Partners Smart Metering Fund	August 10, 2022	$1,038.5	Buyout	Australia	Pacific Equity Partners, PEP Management
Crescent Capital Partners VII	April 1, 2023	$1,000.0	Buyout	Australia	Crescent Capital Partners
Quadrant Private Equity No. 7	December 21, 2020	$923.6	Buyout	Australia	Quadrant Private Equity
Quadrant Private Equity No. 6	December 7, 2017	$874.2	Buyout	Australia	Quadrant Private Equity
QIC Private Equity Fund No. 4	February 1, 2016	$830.0	Buyout	Australia	QIC
Five V Fund V	January 9, 2024	$770.0	Buyout	Australia	Five V Capital

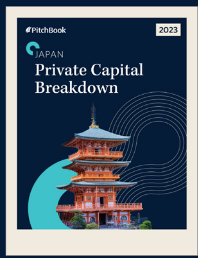
Source: PitchBook • Geography: Australia & New Zealand • *As of March 31, 2024

Additional research

Private markets

2024 Southeast Asia Private Capital Breakdown

Download the report here



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