

Investing in Identity

Key Trends and Signals to Watch in 2023



The digital identity landscape has evolved dramatically in recent years



The number of solution providers has grown in the last 7 years



The pandemic fueled this growth when companies realized identity was the linchpin to digital transformation



This resulted in a major flood of deal flow

2020

\$29.2B
37 deals

2021

\$71.4B
87 deals

2022

\$8.7B
32 deals

2023
(so far)

\$3.21B
32 deals

Macro market conditions are changing since the excitement of 2020 and 2021



The pace of investment will pick back up, but investors and corporate strategy teams are changing how they think about investing in identity



For corporate development teams, it's less about the future promise and more about the strategic rationale



For investors, it's about technology as a strong foundation for growth and advantage



The narrative is shifting from growth to value investing and significant consolidation of digital identity solution providers is anticipated

When underwriting M&A decisions, companies examine several key factors



Companies must determine whether their solution seeks a problem to solve or addresses a current customer pain point



Good technology alone is insufficient; a defined path to commercialization is necessary



The end consumer must be kept in mind, with a paramount focus on security, privacy, and customer experience

Signals and trends that investors and corporate strategy teams are watching include:

- 1 Verifiable credentials can enable companies to address structural roadblocks created by fragmented identity stacks
- 2 Identity wallets are poised for increased adoption, but a clear frontrunner has yet to emerge
- 3 Platforms have substantial challenges with establishing trust and safety while addressing the need for age assurance
- 4 Eagerly awaited passwordless solutions are set to revolutionize the dependence on SMS OTP as a security feature

What should we expect to see happen in 2023?



The pace of deals may slow down; however, strategic acquisitions will combine capabilities to prioritize customer pain points



To win in today's market, solution providers must demonstrate GTM and product strategy alignment, positive unit economics, sustained revenue growth, and sound business practices