Rothschild & Co
Global Advisory

Growth Equity Update

28 June 2022 – Edition 3

- The S&P 500 reached bear market territory on June 13.
- Private markets have already moved down more sharply. The Refinitiv venture capital index is down 51% ytd to June 27.
- Nevertheless, there is continued appetite for best-in-class venture capital backed companies
- 34 new unicorns were minted globally in May (Crunchbase) while CB Insights identifies another 20 new unicorns so far in June.
- In this issue we look at how the dry powder in the VC market may sustain funding. At current run rates, dry powder of c$497bn is equivalent to about three years of VC funding.
- By sector the leading areas attracting VC funding at present are Fintech, Cybersecurity, energy & sustainability and software led businesses.
- VC investors we speak to see opportunity in current market conditions to make good returns
- With IPO activity expected to return in late 2022/ early 2023 we have a feature on what well-placed companies can be doing at an early stage if an IPO is a medium-term option.
- We look at the outlook for inflation, interest rates and the possibility of recession. Almost 70% of economists responding to a recent FT-IGM Survey think the US will enter recession in 2023.
- More positively, markets peaked in mid-January meaning we are already six months into a bear market – post war the average duration of a bear market is 9.5 months…

Growth Equity – How much dry powder is out there?

Assuming c$470bn of annual VC spend, c$200bn of annual fresh fund raising and $100bn pa of exits (an annual funding 'deficit' of $170bn) then the $497bn of global 'dry powder' (Prequin) is equivalent to just under three years 'buffer' of funding.

'Dry powder' - the amount of capital that has been committed to funds minus the amount that has been called by general partners for investments.

An interesting comment made recently by one of the investors to whom we speak was:

'Valuations are negotiable except when there are US investors in the mix because they have a lot of dry powder to deploy.'

The level of dry powder, and to what extent its availability can sustain venture capital fundraisings at a time of adverse macro trends, remains a key debate. We size the level of dry powder and look at how it might be deployed.

VC Assets under Management (AuM) are c$2,000bn. Data firm Prequin estimates total venture capital assets under management reached $2.03trn ($2030bn) in September 2021 making VC the second largest asset class in the alternatives industry behind private equity's $6.03trn. Venture capital AUM have seen growth of 20-30% pa over the past four years. Back in December 2008 the industry's AUM was just c$270bn.

VC dry powder – about $500bn: An early April 2022 Prequin report suggested venture capital dry powder grew by $43.1bn in Q1 2022 reaching $478.5bn. An updated figure on 11 May 2022 increased this to $497bn.

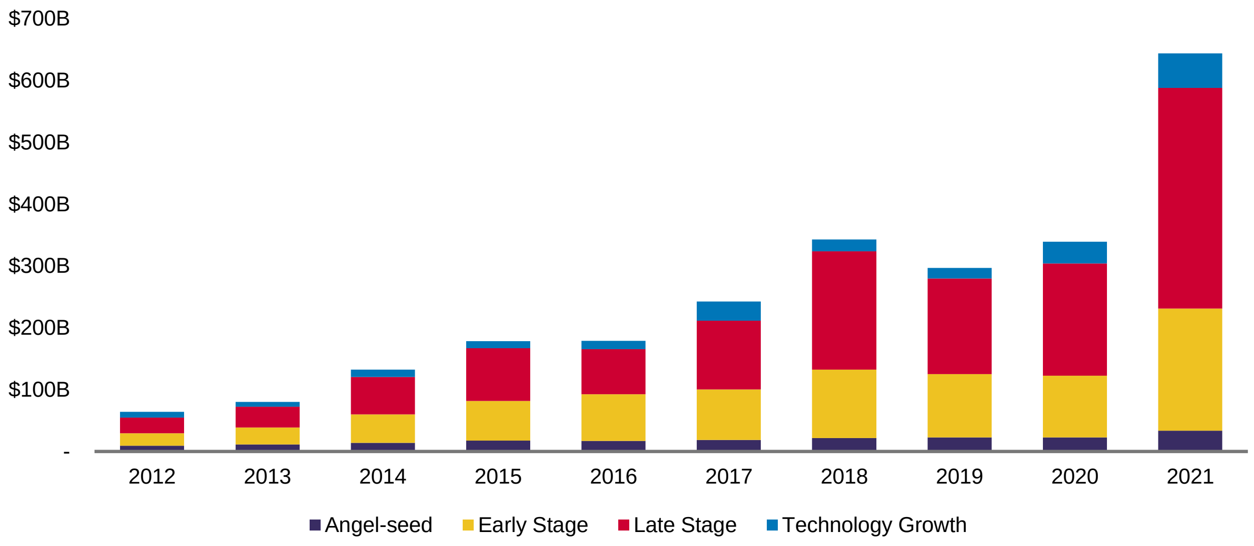
Dry powder – c24% of VC AUM – within the typical range of 21%-27% of the last five years. With VC AUM at $2.03trn and dry powder at $497bn, dry powder represents c24% of total VC AUM. From December 2016 to March 2021 the range for the ratio of dry powder to AUM was 21% -27% (venture capital went from $547bn to $1.68tn; dry powder increased from $146bn to $355bn).

What sort of buffer is it? How long will it last?

c$700bn invested by VCs globally in 2021: Global 2021 VC investment in start-ups was c$682bn according to Crunchbase and $721bn according to PitchBook. It seems reasonable that a figure of c$700bn is broadly accurate.

Global VC investment in start-ups in 2020 was c$300bn in 2020, suggesting growth in 2021 was well over 100%. The average VC funding of companies in the years 2017-19 was also close to $300bn.

Global Venture Dollar volume 2012-2021



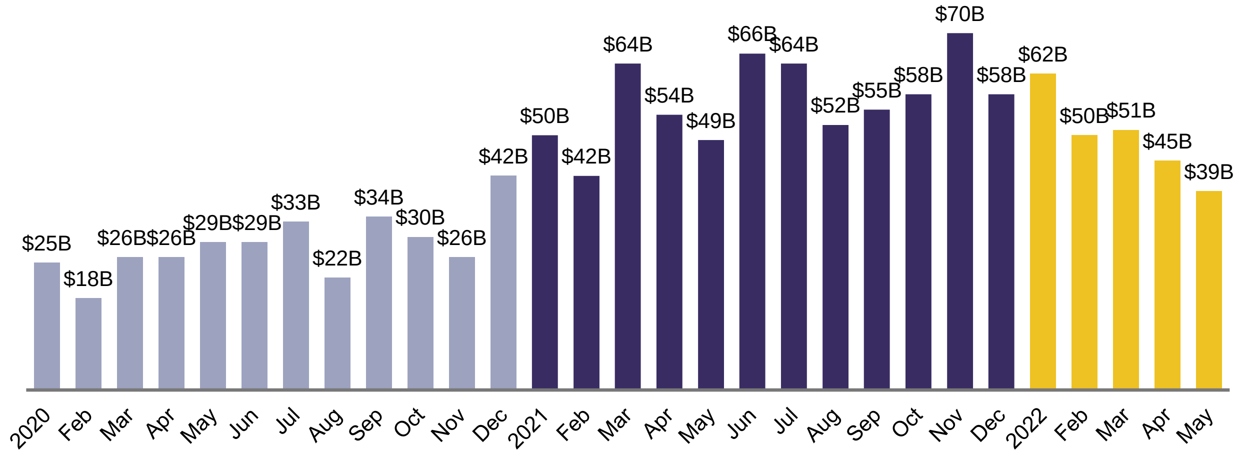
Source: Crunchbase

2022 on a run rate investment of c$520bn: Given the momentum from 2021, Q1 2022 investment in venture backed companies rose 5% yoy to $163bn (vs $156bn in Q1 2021- Crunchbase data). April and May investment was $84bn, down 18% yoy from $103bn in the same 2021 period.

Given the tougher quarterly comps, greater caution in the market, funding decisions that are taking longer and the likely lower average deal size produced by lower valuations, it is likely we will see investment levels decline yoy for the rest of 2022.

Using the first 5 months VC spend at $247bn and projecting forward at a monthly rate of $39bn (the May figure), total 2022 VC investment is on track to be c$520bn - still well above the c$300m run rate of 2017-20.

Global funding by month through May 2022



Source: Crunchbase; Includes seed, venture and private equity for venture backed companies.

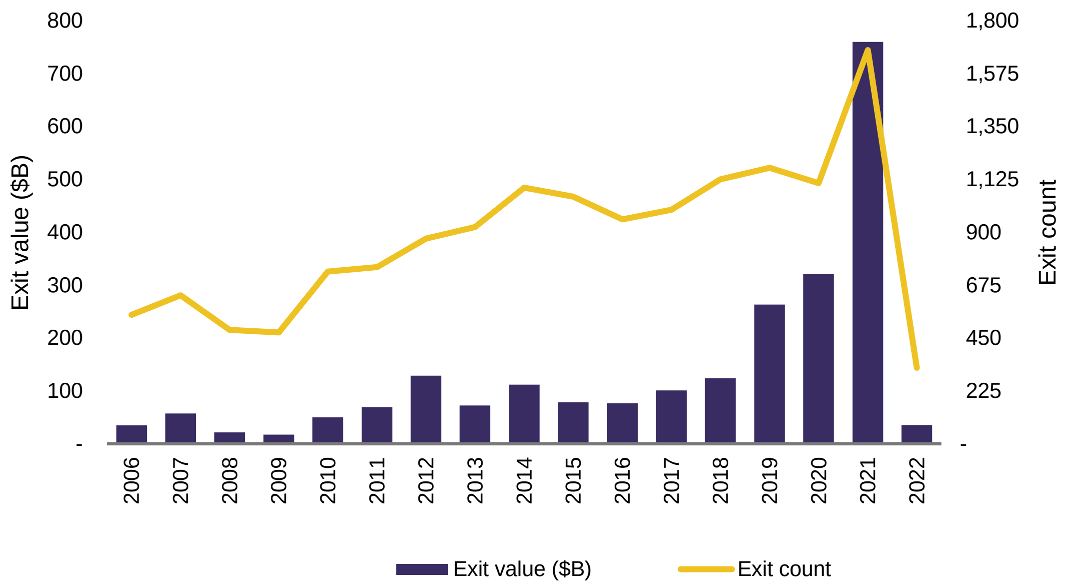
Fresh money raised by VCs was c$54bn in Q1 2022: Prequin estimates global venture capital funds raised $54bn in Q1 2022, an 11% rise on Q4 2021 but down 9% yoy. We see continued appetite for new investment in VC funds - Andreessen Horowitz has just raised a $4.5bn fund for crypto and blockchain; Tiger Global is reported by Fortune to be raising a new fund for private investments (https://fortune.com/2022/05/27/tiger-global-raises-fund-for-private-investments-public-markets-sour/).

....implying c$200bn for the whole of 2022. If fresh money being raised by VCs continues at a similar rate for the rest of 2022, we may assume about c$200bn pa.

Much lower exit proceeds likely in 2022: With buoyant market conditions and accelerated SPAC exits, 2021 was a bumper year for exits. The 2021 total of $774bn in VC- backed exits was more than 2.5x the previous record of $289bn in 2020. Of the $774bn of exit value $682bn or 88% was the direct result of IPOs and SPACs.

The slowdown in IPO and particularly SPAC activity means venture-backed exit value in the US was just $34bn in Q1 2022, an 82% decline on Q42021. It seems probable that the Q2 figures will fall from the Q1 level although it may be partially compensated by more M&A activity. We assume a total of $100bn for 2022.

Venture capital exit value sharply lower in Q1 2022



Source: Pitchbook

Dry powder is around three years of buffer

Using a dry powder figure of $497bn

- At a simple level c$700bn was invested by VCs globally in 2021. Dry powder of $497bn is equivalent to 8.5 months of spend.
- 2022 is on a VC run rate of investment of c$520bn. All else equal $497bn of dry powder is equivalent to 11.5 months of spend at this level.
- If VC spend settles at c$470bn in 2023 (12x the $39bn spent in May 2022) and beyond (about a third above the average levels of 2017-20) then the dry powder is c13 months of spend.
- Assuming c$470m of annual VC spend, c$200bn of annual fresh fund raising and $100bn pa of exits (an annual funding 'deficit' of $170bn) then the dry powder is equivalent to just under three years 'buffer' of funding.

As a cross-check, according to PitchBook, Q1 2022 saw US VCs raise more capital commitments for new funds than in the entirety of 2019. PitchBook analysts estimate that the dry powder in the market should last about three years. This estimate excludes potential additional capital coming from non-traditional investors like corporate VCs.

What are the implications of this dry powder buffer?

Supportive to early-stage: According to Prequin dry powder dedicated to early-stage investment increased 24% in Q1 2022 and stood at $169bn, c35% of the total. Given smaller average deal size in early-stage rounds (the median US deal size in early-stage VC was $10m in 2021) this should be a substantial support to early-stage fund raisings. It does not imply that valuations will be unaffected, but does imply that funding alone is no reason for deal volume to decline.

....less so for expansion/late-stage deals. For later stage deals, funds' dry powder level fell by 6% between FY 2021 and the end of Q1 2022 and stood at c$310m. The median US deal size in late-stage VC was $45m in 2021.

This implies the dry powder support for average deal size is 2.5x greater for early stage than late-stage deals which supports the view that the first effects of the slowdown in venture activity have been seen in late stage deals with early stage as yet less affected.

Supporting existing investments: There is still dry powder out there, but this may now be deployed more to supporting existing rather than new investments, particularly in later stage deals.

> *"There's still a lot of dry powder in the market. Even if companies are overvalued, they have revenue and cash to survive compared to 2001 where investment demand dropped by 50%. If that happened, we'll still be at the same level as 2018. We'll see what happens over the next year, but we shouldn't just look back at 2021."*
>
> UVC Partners managing partner Ingo Potthof

Venture capital views: A recent survey of 105 venture capital investors attending the Collision Conference in Toronto (June 20/23 https://collisionconf.com/) found:

- When evaluating external pressures facing venture capital markets - such as public market volatility and increasing interest rates - 45% of respondents **disagreed** that their investment activity will markedly decrease from recent years.
- When asked which category has the potential to be most disruptive in the next five to ten years, fintech remained at the top at 30%. Artificial intelligence and machine learning came in second (27%) overtaking climate tech (15%) which had come second in 2021.
- The senior VC analyst at Pitchbook commented "*It is a strong signal of market stability that nearly half of investors polled do not plan on slowing down investment activity. Recent fundraising records have driven dry powder levels to new heights, which can provide short-term insulation from global market headwinds.'*

The most active investors did 9% more deals by volume in the first 5 months of 2022 than they did in 2021

We review which funds have been the most active in venture capital fundraising rounds in the year to date to end May. The data indicates that many of the most active investors have done more deals by volume in the first five months of 2022 than they did in the same period of either 2020 (impacted by the peak Covid period March-May) or 2021. Such funds include Tiger Global, Insight Partners, Andreesen Horowitz, Sequoia, Accel, the Softbank Vision Fund and Index Ventures. Overall, the most active investors did 9% more deals by volume in the first 5 months of 2022 than they did in 2021. They did over 2.5x the number carried out by these investors in the same 2020 period.

Five of these investors – Insight, Andreesen Horowitz, Sequoia, Accel and The Softbank Vision Fund led deals with greater dollar amounts than in the first five months of 2021. Overall, the group of 15 lead investors deployed $40.7bn in these deals, 30% down on the same period in 2021.

Investment Led or Co led Jan - May 24 2020-2022								
Data Derived from Crunchbase								
	Counts led Jan - May 24			2022	Deal amounts led Jan - May 24			2022
	2020	2021	2022	vs 2021	2020	2021	2022	vs 2021
Tiger Global	12	69	130	88%	1.1	10.4	9.1	(13%)
Insight Partners	27	62	82	32%	1.5	5.4	5.6	4%
a16z	26	46	53	15%	0.8	2.9	3.6	24%
General Catalyst	9	39	22	(44%)	0.2	2.6	1.2	(54%)
Coatue	10	33	16	(52%)	0.5	6.9	2.2	(68%)
Sequoia Capital	14	31	32	3%	0.6	3.1	3.6	16%
Qiming	16	29	11	(62%)	0.3	0.8	0.5	(38%)
Accel	19	28	34	21%	0.4	1.2	1.3	8%
Softbank	10	24	48	100%	4.6	5.8	7.1	22%
Sequoia China	14	24	22	(8%)	0.3	5.8	1.0	(83%)
Lightspeed VP	14	24	24	-	0.5	1.7	1.2	(29%)
IDG Capital	6	19	14	(26%)	0.1	2.9	0.7	(76%)
D1 Capital	5	19	4	(79%)	0.4	4.3	0.4	(91%)
Tamasek	14	18	16	(11%)	1.6	3.2	2.4	(25%)
Index Ventures	13	18	20	11%	0.3	0.8	0.8	-
Total	**209**	**483**	**528**	**9%**	**13.2**	**57.8**	**40.7**	**(30%)**

Source: Crunchbase

There were 34 new unicorns created globally in the month of May.

Looking at the data

- According to Crunchbase ' *The most active investors in this cohort of companies are Tiger Global with seven portfolio companies, Insight Partners with five companies, and accelerator Y Combinator and Andreessen Horowitz, each with four portfolio companies.'*
- There was a variety of lead investors including specialist venture firms; private equity; hedge funds, pension funds (Railpen and AMF) and corporate investors (Porsche).
- The biggest raises were the Porsche led $400m investment in battery materials business ***Group 14 Technologies***, a $400m raise by HR software platform, ***Velocity Global***; the $537m raise by Croatian electric vehicles manufacture ***Rimac*** and the $600m raised by ***Ultima Genomics***.
- By sector the leading areas were Fintech; Cybersecurity; energy & sustainability and software led businesses. The sharp reversals in Crypto markets in the week of June 13 were preceded by the creation of five new crypto unicorns in the month of May.

There were 34 new unicorns in May 2022

Company	Sector	Country	Series	Raise	Activity	Lead investors	Valuation (if available)
Paddle	FinTech	UK	Series D	200	Payments infrastructure	KKR	
Clear Street	FinTech	US	Series B	165	Capital Markets infrastructure	Prysm	
Caribou	FinTech	US	Series C	115	Auo refinance	Goldman Sachs	
Opn	FinTech	Japan	Series C	120	eCommerce payments	JIC Venture Growth	
Dock	FinTech	Brazil	Private Equity	110	Card issuance and banking	Lightrock; Silver Lake Waterman	
Unit	FinTech	US	Series C	100	Fintech product integration	Insight Partners	
Transfer Mate	FinTech	Ireland	Series C	70	B2B payment platform	RPMI Railpen	
Open	FinTech	India	Series D	50	Neobank for small businesses	IIFL Finance	
Group 14 Technologies	Energy/Sustainability	US	Series C	400	Battery materials	Porsche	
Arcadia	Energy/Sustainability	US	Series E	200	Decarbonisation of the grid	JP Morgan	
Polarium	Energy/Sustainability	Sweden	n/a	97	Lithium batteries for telecoms	AMF	
Abnormal Security	Cybersecurity	US	Series C	210	email security	Insight Partners	$4bn
Semperis	Cybersecurity	US	Series C	200	enterprise identity protection	KKR	
Teleport	Cybersecurity	US	Series C	110	Software access infrastructure	Bessemer Venture	
Material Security	Cybersecurity	US	Series C	100	email security	Founders Fund	
KuCoin	CryptoCurrency	Seychelles	Series B	150	Cryptocurrency exchange	Jumbo Crypto	$10bn
Babel Finance	CryptoCurrency	Hong Kong	Series B	80	Crypto financial services provider	10T Holdings/Jeneration Capital	$2bn
Talos	CryptoCurrency	US	Series B	105	Crypto trading platform	General Atlantic	
Monte Carlo	Data and Analytics	US	Series D	135	Data platform software	IVP	
Imply	Data and Analytics	US	Series D	100	Realtime analytics	Thomas Bravo	
Habi	Real Estate	Colombia	Series C	200	Real estate platform	Homebrew, SoftBank Latin America	
Material Bank	Real Estate	US	Series D	175	Samples for architecture/design	Brookfield Growth	
Rimac Group	Automotive/EV	Croatia	Series D	537	Electric vehicle builder	Goldman Sachs/SoftBank Vision Fund	$2.1bn
Optibus	Transport	Israel	Series D	100	Transportation platform	Insight/Bessemer	
OHouse	eCommerce	South Korea	Series D	182	eCommerce home goods	Vertex Growth/Softbank Ventures Asia	
Mashgin	eCommerce	US	Series B	63	Touchless checkout system	New Enterprise Associates	
Hugging Face	Machine Learning	US	Series C	100	Machine learning models	Lux Capital	$2bn
Zip	Software	US	Series B	43	Software for vendor requests	Y Combinator	
Ultima Genomics	Biotech	US	n/a	600	Human genomics	Andreessen Horowitz and Founders Fund.	
Nowports	Logistics	Mexico	Series C	150	Freight Forwarder	SoftBank Latin America	
ReMarkablle	Tech Hardware	Norway	n/a	n/a	Paper tablets	Not confirmed	$1bn+
Velocity Global	B2B services	US	Series B	400	HR management platform	Eldridge, Norwest Ventures	
Glean	B2B services	US	Series C	100	Applications data search	Sequoia	
iCIMS	B2B services	US	n/a	n/a	Talent Management	TA Associates	

Source: Crunchbase

Feedback from investors

The changed nature of venture capital market conditions is reflected in the feedback we are getting from investors. The core themes we are seeing are (i) a slowdown in activity – both in terms of the number of companies coming for funding and in the time taken by investors to do diligence (ii) Investors are looking for more onerous structuring terms (in investors' favour) (iii) There is a perception that companies are postponing rounds if they have sufficient runway to do so (iv) The valuation environment has changed. Some investors comment that not all founders have adapted to this as yet. Nevertheless, there is a perception that more deals are now being offered at attractive valuations and that there are opportunities to make good returns.

Some of the commentary hints at factors that the public statistics on venture raising don't as yet reveal such as the number of rounds that have already been in the market a long time and have not yet completed and the number of internal rounds that are not announced.

Comments on market conditions we are seeing from VC investors

Diligence

- *Key investment focus and key item of diligence above all else is quality of management.*
- *Timelines less crazy*

- *Founders are commenting that rounds take too long and they need to have a lot of meetings and due diligence now*
- *Remain open for business and want to see new opportunities … but significantly more discerning*
- *On new transactions we will want to structure for downside protection*

Valuation

- *Have kept their powder dry and looking actively now to deploy and take advantage of attractive valuations*
- *Actively investing but cautious about valuation*
- *Valuations are negotiable except when there are US investors in the mix because they have a lot of dry powder to deploy*
- *See a lot of deal flow at good valuations*
- *People start to understand the world has changed*
- *Some founders haven't caught up to realise valuations are coming down*
- *Down rounds – don't see them yet. There have been a lot of internal rounds. When these come back to market will probably be down rounds*
- *Last year was driven by specific funds who moved fast at high valuations and forced others to do the same – these funds are gone now*
- *See opportunity in current market to make good returns*
- *There is a large amount of co-investment opportunities for them as people are pushing rounds through*
- *Believes valuations might be even lower next year given the cost of capital*

Fundraising

- *Supply side slowdown (fewer raises)*
- *More capital coming from internal sources*
- *Many companies who are raising now increase round size when they have traction, so they can extend runway further*
- *Fundraises are not completing – after passing on deals startups are getting back in touch after a few months*
- *Really good businesses are postponing the fundraise altogether*
- *Many quality businesses say they have runway to 2023 and are not looking to raise. Would do so if investor willing to pay last year's multiples*
- *Expect the market to be slow in the next 3 months but think there will be a very active end of the year and next year when companies need to raise again*

M&A

- *Some portfolio companies will be M&A exits rather than more cap raises / IPO*
- *Most ongoing raises are either because companies run out of cash or activism financing to seize opportunity for consolidation*

Sectors

- *Active in crypto and want to do more - focus on infrastructure providers*
- *Hear that there are no issues on seed / early series*
- *Prefer B2B models / infrastructure within Fintech and Healthcare*
- *Focus on resilient growth – company could be profitable but raise money to launch another market or product*

Some of our team attended Money20/20 in Amsterdam and reported a vibrant, well-attended event indicating that, despite the challenging valuation and fundraising backdrop, the pace and creativity of innovation in the FinTech sector is unabated. Companies creating and monetising sustainable use cases for blockchain technology are amongst those at the forefront of activity.

> “I figure this is my third crypto winter. There’s been plenty of ups and downs, but I see that as an opportunity. If you believe that the fundamentals of a long-term case are really strong, when everybody else is dipping [out], that’s the time to double down.”
>
> Fidelity CEO Abby Johnson – June 10, 2022

Preparing for an IPO

The experience of recent weeks is that, even in this period of relative turmoil for private markets, high quality businesses serving must-have applications are continuing to attract funding support and to progress in their journey to what may eventually be an IPO.

IPO activity has been subdued globally YTD, but the majority of the pipeline has been deferred rather than cancelled with active preparation for IPOs in the second half of 2022 and in 2023 continuing.

Preparation for life as a listed company is a lengthy and exacting business. Market conditions can change rapidly, and it is best to be prepared in order to take advantage of strong market windows when they present themselves.

We spoke to Rothschild & Co’s IPO Advisory team which has advised over 100 IPOs globally in recent years. It recommends that companies looking at a potential IPO in the next c.18 months should focus on:

1. Positioning the company and the equity story. The usual ingredients will go into this such as total addressable market, company positioning, barriers to entry and growth record. However, the way the equity story is presented to investors differs to private capital raises or M&A processes due to the inability to share forecasts and the requirement for all marketing materials to be verified and consistent with the final prospectus. This creates several pitfalls to be navigated and increases the importance of proof points which underpin the investment case. Careful planning is required at an early stage to reach the best outcome. This can include timing the IPO to ensure the historical track record and available proof points best support the upside potential for the business going forward. The current market conditions are also a good testing ground for investors who will want to see how the management and businesses responded to challenging macroeconomic conditions. A strong management response to changed conditions will be a good proving point for investors.

2. Deciding where to list: This is a crucial early-stage decision as it drives so much in the IPO process (e.g. right banks / lawyers, technical requirements, investors, positioning, research coverage, offer structure, governance). Rothschild & Co is agnostic around listing venue, and we see our job as helping companies find the right answer for them, which will be case specific and depend on bespoke company/shareholder objectives and also the precise attributes of the company in question (size, sector, level of growth, profitability etc.).

There are wide range of technical and commercial factors which should be considered, but it often comes down to identifying the market which is best suited to building a long-term supportive share register at an attractive and sustainable valuation which serves as a platform for future growth.

3. Addressing governance structures: Governance structures and Board composition are critical factors in an IPO. An effective board and governance structure requires long term consideration and planning and is often a cause for delays on IPOs (e.g. when new board members cannot be appointed in time).

Company founders and shareholders need to think at an early stage about their objectives and how they can be put in place without creating a distraction from the investment case for investors. Rothschild & Co is experienced in advising on bespoke governance structures to meet specific objectives.

4. Meeting investors and analysts early: A critical part of an IPO process is the building of trust with investors and sell-side analysts. As the business delivers on its plan, trust develops and helps build credibility amongst analysts and a ‘fan club’ of investors who should provide the core of demand in a successful IPO. We frequently help companies plan a tailored engagement strategy for investors and analysts at an early stage, ensuring they meet the right individuals (e.g. long-term supportive shareholders rather than short-term ‘deal players’) and get to know the relevant analysts before they become restricted from doing so ahead of appointing a syndicate of banks.

5. Putting the team together: IPOs are complex processes and require a substantial team effort. The appointment of the best team of advisers for your specific transaction, at the right time in the process, and on the best terms will help deliver success. It can be challenging for companies to understand the priorities for the various roles, and to decipher who is best placed for their specific situation (especially when everyone presents themselves as no.1 in the league tables!). Rothschild & Co helps ease this process by ensuring companies have the benefit of our real-life experience of appointing and working alongside most of likely banks, lawyers, accountants (and other parties) on a wide range of recent IPOs.

Inflation, interest rates, recession

Looking for 'less bad' to lead the turn:

The checklist

In our last two reviews we said that we were looking for 'less bad' to lead the turn in market sentiment. We wrote:

'At present the market continues to absorb the negative change narrative and this will likely continue to dominate the news agenda for a while. In due course this narrative will become 'less bad'. The core factor is probably inflation whose leap has driven the new era of rising interest rates. Once inflation and interest rates appear to have peaked the pressure on markets should ease, the IPO log jam will start to be released with the benefit in turn cascading back through the private capital markets. There are one-off factors that could help – any sign of cessation in hostilities between Russia and Ukraine; the relief from heightened Covid restrictions in China; and, more prosaically that, recession fears having been raised, the global economy simply manages to avoid falling into recession.'

Checking out that checklist:

1. Global inflation and interest rates

Interest rates rising more than expected: Despite expectations earlier in the year that the Fed would indulge in higher-than-normal rate increases as the year went on, global markets responded negatively to the Fed's 75bps rate rise in mid-June with the S&P 500 falling 5% in the subsequent week.

The scale of the combined tightening and the indicated outlook for future rate rises was greater than anticipated. The benchmark rate was lifted by 75bps to a range of 1.5-1.75% and the Fed said that another increase of the same size was possible in its July meeting commenting that it *'anticipates that ongoing increases in the target range will be appropriate'.*

This was a more drastic outturn than the c100bps total increase over the June-July meetings that had been signalled and which the market had as its base case.

The FT comments that most Fed officials now expect the policy rate to be well above 3% by the end of 2022 and perhaps as high as 3.8% in 2023.

In its subsequent emergency meeting the ECB announced a plan to increase rates by a quarter point in July and indicated that it is likely to raise interest rates by 50bps in September. The Bank of England raised interest rates by 25bps to 1.25%.

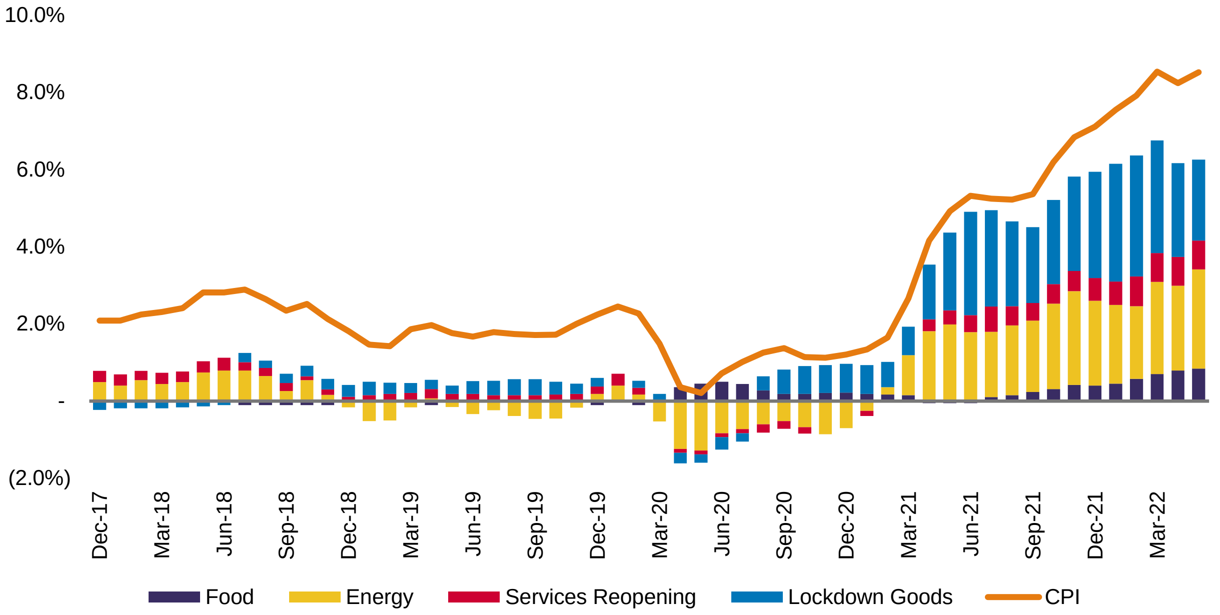
.....in response to higher than expected increases in inflation:

Consumer price inflation in the EuroZone hit 8.1% in May, above market expectations of 7.8% and up from 7.4% in April. UK inflation hit 9.1% in May, up from 9% in April and the Bank of England has warned that it is likely to reach 11% by the end of this year.

US inflation rose to 8.6% in May, a 100bps seasonally adjusted increase after a 30bps increase in April. Fed chair Jay Powell has observed the Fed would require "*compelling evidence"* that inflation was slowing before shifting from its stance of increasing interest rates. He observed that the US economy *is "very strong and well positioned to handle tighter monetary policy"* but that further inflation surprises *"could be in store".*

Economists have become more reluctant to anticipate the moment of peak inflation although arguments remain that rising interest rates and the easing of supply chain difficulties should ease inflationary pressure.

US inflation components



Source: Redburn, Datastream

Melissa Davies at Redburn writes (When Doves Cry – June 22nd, 2022)

'Breaking down US inflation we can see the large contribution (c75%) made to headline inflation from Energy, Food, Lockdown Goods and Services Reopening. The proportions are even higher in Europe (c95%). Each one of these should logically unwind over the next 12 months, as commodity price shocks annualise out of the data, demand rotates away from increasingly over-stocked goods towards services, Chinese production normalises and consumer-facing services return to normal operating conditions. Of course, the near-term hawkish view is that these current inflationary pressures will lead to the destabilisation of inflation expectations and 'second-round' effects in corporate pricing and labour markets.'

……inducing the threat of recession: Higher interest rates threaten a shift into recession. Mr Powell said in testimony to the Senate Banking Committee on 22nd June that a US recession is *"certainly a possibility".*

The FT-IGM Survey, which polls academic economists, records that almost 70% of respondents think the US will move into recession in 2023. (https://www.ft.com/content/53fcbbf1-39e3-483c-a6f2-b0de432ed5a3)

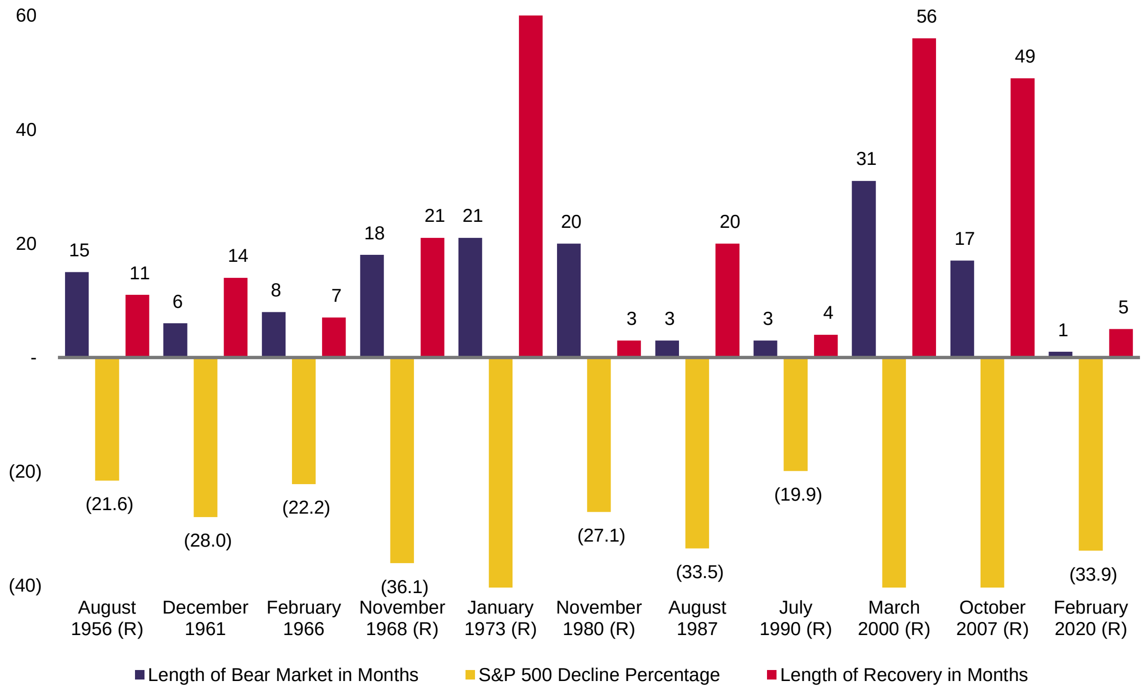
Economists at Citigroup are now forecasting a near 50% probability of global recession over the next 18 months. The CEO of Deutsche Bank commented in late June that *'we have 50% likelihood of a recession globally.'*

Crumbs of comfort:

On interest rates analysts at Morgan Stanley observed post the June Fed interest rate increases *'the scope for incremental hawkish surprises around the near-term path of central bank tightening is much diminished after the last couple of weeks, although we think this ultimately provides little comfort for markets until we get closer to a clear peak in inflation.'*

We are six months into a bear market – post war the average duration of a bear market is 9.5 months…… roll on October. Looking for further comfort we can analyse some of the historic characteristics of bear markets.

The next chart looks to put the current bear market into context.



Source: LPL Research & CFRA FactSet

Bear markets and recessions do not necessarily coincide: There have been 25 bear markets since 1928. Of these 14 have coincided with a recession, while 11 did not.

Duration of bear markets: Between April 1947 and April 2022, there have been 14 bear markets, ranging in length from one month to 1.7 years. The average length of a bear markets is around nine months. The S&P 500 peaked on January 3rd 2022 meaning that this bear market is already nearly six months old.

Severity of bear markets: Post-war the severity of bear markets has ranged from a decline of 57% (October 2007) in the S&P 500 to a decline of 20% (July 1990). By June 23rd the S&P 500 was down 21% from its January peak.

Rothschild & Co: Selected 2022 deals in Growth Equity and Private Capital

A selection of the deals on which we have advised thus far in 2022.

CARSOME

Carsome: US$290m Series E

- US$290m Series E fundraise led by SeaTown Holdings International and 65 Equity Partners Holdings
- The funding round brought Carsome's valuation to US$1.69bn, cementing its position as Malaysia's first and largest tech unicorn
- This was the second fundraise by Carsome this year following the US$170m Series D2 round in September 2021, on which we also advised

MARWYN
Acquisition Company PLC

Marwyn Acquisition Company II: £500m equity raise

- In March 2022 advised Marwyn Acquisition Company II on the launch of its equity raise, by way of a 12-month placing programme
- The company will seek to raise up to £500m during the next twelve months from equity investors in a structure which is distinct from the typical 'SPAC' structure

Banijay BetClic Everest GROUP

FL Entertainment: €7.2bn combination with Pegasus Entrepreneurs and simultaneous c€550m equity raising

- FL Entertainment is composed of Banijay, the largest independent content producer globally, and Betclic Everest Group, Europe's fastest-growing sports betting platform. Pegasus Entrepreneurs is an Amsterdam-listed SPAC backed by Financière Agache and Tikehau.
- Largest ever European SPAC business combination and PIPE raising.
- FL Entertainment becomes Amsterdam-listed, with pro forma market capitalisation of €4.1bn

INSIGHT PARTNERS precisely

Insight Partners: strategic investment in Precisely

- Led investment in a recap of Precisely Software Incorporated, in an investor group that will also include Partners Group, Clearlake Capital, TA Associates, and Centerbridge Partners
- Precisely is a leading data integrity and infrastructure software company targeting enterprise customers. Its software solutions are used to help its customers organize, validate, collate and analyze data in an accurate and efficient manner across diverse environments.

KPLER

Kpler: Minority stake Acquisition

- Sole financial adviser to Five Arrows Growth Capital and Insight Partners on their joint acquisition of a minority stake in Kpler Holding S.A. from its founders.
- The transaction consisted of an acquisition of c.30% of the secondary share capital of Kpler plus a primary investment of €20m into the Company
- Kpler is a leading SaaS provider of data and analytics to energy markets by leveraging satellite and other data sources to provide real-time insight on demand and supply fundamentals across commodity types.

HARMAY®

Harmay: US$90m Series D

- Harmay is a premium beauty retailer offering 9,000+ SKUs from 400+ international brands in China, and via its WeChat mini-program store
- Advised Harmay on its US$90m Series D equity financing from a group of leading Chinese and global growth equity /venture capital funds
- Raise was led by QY Capital (an entity related to Alibaba New Retail Fund) and included existing investors General Atlantic, Eastern Bell Capital, N5 Capital and Ocean Link

SEBA BANK

SEBA Bank: CHF110m raise

- In January 2022 acted on SEBA's CHF110m fundraising co-led by a consortium of new investors specialized in blockchain and fintech including Altive, Ordway Selections and Summer Capital
- DeFi Technologies, a NEO listed leader in decentralized finance, and Alameda Research, a global cryptocurrency quantitative trading firm, also participated

FIRST DIGITAL BANK

First Digital Bank: US$120m capital raise

- First Digital Bank (FDB) is the first bank to receive a banking license in Israel for over 42 years and the first neobank to operate in Israel
- Advised on FDB's US$120m capital raise through a syndicate of investors which included Tencent, SBI Investment Co, Julius Baer, and West Coast Equity Partners
- Transaction valued FDB at US$320m on a post-money basis and built on the success of Rothschild & Co's £325m Series D fundraise for Starling Bank in 2021

fibrus
HYPERFAST FIBRE BROADBAND

Fibrus: £270m seven-year debt package

- Fibrus is an alternative provider of full fibre network infrastructure and broadband in rural UK
- Advised Fibrus in relation to a £270m seven-year debt package, comprising a £200m capex facility, £20m revolving facility and up to £50m uncommitted accordion facility
- We are highly active in European fibre infrastructure with this transaction marking our 7th debt financing mandate in UK fibre in the last 3 years following mandates with G.Network, CityFibre, Covage, Altice, Gigaclear, INEA and inexio

CC NEUBERGER PRINCIPAL HOLDINGS II

Neuberger: US$4.8bn valuation Getty Images combination

- CC Neuberger Principal Holdings II is a special purpose acquisition company that completed its initial public offering in July 2020, raising US $828m in proceeds
- Advised the company on its proposed business combination with Getty Images valuing the target company at an enterprise value of US $4.8bn, equivalent to 15.2x enterprise value to 2022E Adj. EBITDA of US $315m
- Transaction is expected to close in the first half of 2022, subject to customary closing conditions

azerion

Azerion: €1,300m enterprise value combination with EFIC1

- Azerion provides technology solutions to automate the purchase and sale of digital advertising inventory for advertisers, publishers and game creators. It also operates online games and digital content
- Advised Azerion on its €1,300m enterprise value combination with European FinTech IPO Company 1 B.V ("EFIC1") - a SPAC that raised c.€382m through IPO on Euronext Amsterdam in March 2021 with the objective to combine with a fast growing, profitable and tech-enabled European champion
- Landmark transaction - one of the largest de-SPAC transactions across Europe to date

gousto

Gousto: £240m primary and secondary rounds

- In January 2022 completed a £70m primary financing for food delivery company Gousto with Softbank Vision Fund 2
- In February we completed the secondary component of £170m from institutional investors including SoftBank, Grosvenor Food & AgTech, Railpen and Fidelity International
- Transaction valued Gousto at £1.2bn on a pre-money basis, ~£400m higher than the December 20 round, with EV/EBITDA in the mid 20s

For more information, or advice, contact our Growth Equity team:

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