Rothschild & Co
Global Advisory

Growth Equity Update

November 2022 – Edition 8

- Q3 2022 was a lacklustre quarter for venture capital markets with the $66bn raised globally down 46% on the preceding quarter. September 2022 saw just 7 companies reaching ‘unicorn’ status compared with 53 in the same month in 2021.
- Venture capital activity has slowed progressively through 2022 as the momentum from 2021 fell away. Clearly the VC market, focused on growth businesses with much of the value in the outer years, is even more impacted by the rising interest rate environment than its public market peers. YTD to the 4th of November, and in ascending order of growth orientation, the EuroStoxx 50 is down 14%, the S&P 500 21%, NASDAQ by 34% and the Refinitiv Venture Capital Index by 57%.
- The public markets continue to wrestle with whether, as economies slow and the risk of recession increases, the peak of inflation and the interest rate cycle might be coming into sight.
- Markets are effectively bouncing along the bottom. The S&P 500 is down 21% ytd – but has rallied c5% from mid-October. For the S&P 500 the main damage was done in Q2 2022, down 16%. The index has moved sideways since end June. NASDAQ was down 10% in Q1, 22% in Q2 and is down 5% since the end of June.
- In this update we review what happened in venture capital markets in Q3. We look at the first stirrings of the IPO market where both the €9.4bn Porsche and the $860m Mobileye IPO offerings have traded strongly. We look at what might be needed to see IPO markets re-open more convincingly in 2023.
- We review the venture debt market in Q3 as private companies in the meantime look for alternate and supplementary sources of funding.

What happened in growth equity markets in Q3… and what happens next?

Continued market volatility amidst rising inflation, interest rates and recessionary fears meant the growth equity market activity was muted in Q3 2022, well down on the heady levels of 2021 but slipping also well below the activity levels of the first two quarters of 2022.

The headlines for activity levels in growth equity markets in Q3 are:

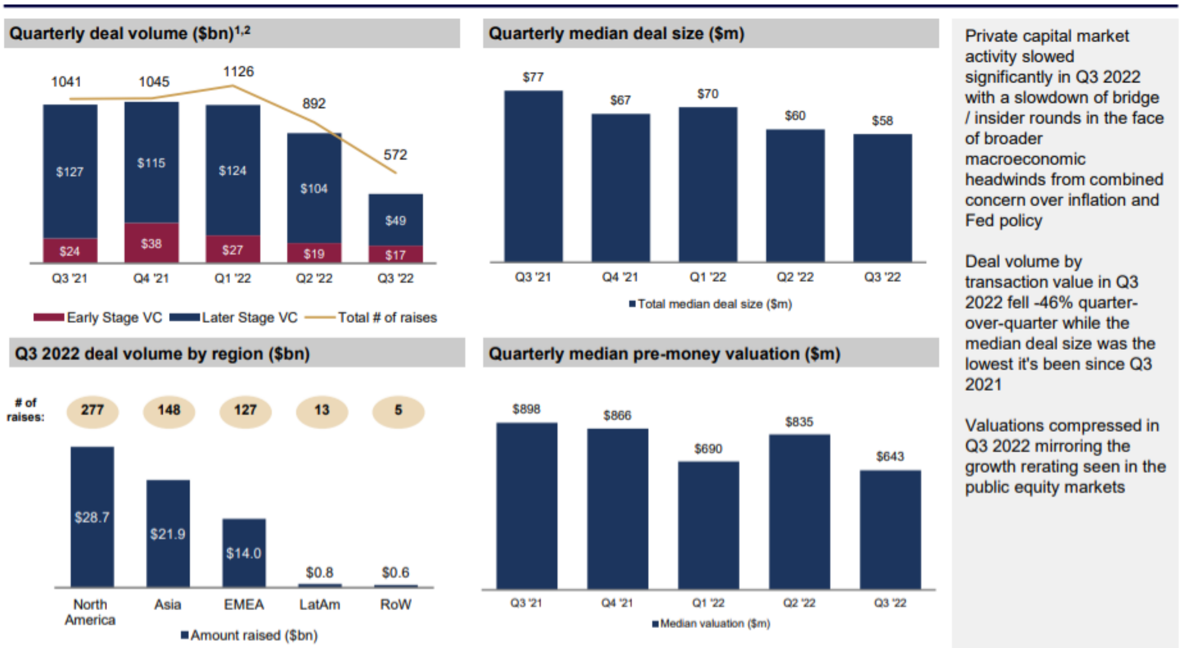
There was a significant slowdown in private capital market activity in Q3 2022 with the global amount raised falling to $66bn, down from $151bn in the equivalent 2021 quarter (-63%) and down from $123bn in the preceding quarter (-46%).

The median deal size in Q2 was $58m versus $77m in the equivalent 2021 quarter (-25%) and $60m (-3%) in Q2 2022.

The quarterly median pre money valuation was $643m down from $898m in the equivalent 2021 quarter (-28%) and down from $835m (-23%) in Q2.

September saw just 7 companies reaching "unicorn status", compared with 53 in the same month in 2021

Q3 2022 Growth Equity activity summary – *David Kleban Rothschild & Co*



Source: Pitchbook including all completed VC and growth equity deals greater than $25 million with at least $250 million pre-money equity value or unpriced
Notes:
1 Early stage VC defined as Angel round. Seed round, Series A – Series B venture rounds and/or deals that occurred within 5 years of the company's founding date
2 Later stage VC defined as Series C or greater venture rounds and/or deals that occurred more than 5 years after the company's founding date

Q3 2022 observations

- Investors deployed 56% less capital from the same quarter last year with more restrictive deal terms and conservative valuations to account for continued market volatility and near-term recessionary fears
- September witnessed a decline to just 7 companies reaching "unicorn status", compared with 53 in the same month last year
- Solid companies with proven growth and profitability strategies through the cycles were still able to raise significant sums of capital, albeit 2 out of the 5 largest deals in the quarter were struck without a valuation
- Alongside the broader decrease in private capital volume, there were less insider rounds completed compared to previous quarters of 2022
- Despite widespread market conservatism, credible early-stage companies in the Web 3.0 / blockchain space were able to command sizable valuations comprising 4 of the top 5 Series A and B rounds priced in Q3

Top deals globally from Q3 2022

Rank	Company	Sector	Deal size ($bn)	Valuation ($bn)[1]	Lead investor(s)
1	inside	Software	$2.6	Unpriced	WE ventures; Tail End Capital Partners
2	Internet Brands	Internet	$2.0	$12.0	Warburg Pincus
3	SK on	EV Batteries	$1.5	$15.3	Eastbridge Group
4	SsangYong Cement	Materials	$1.5	Unpriced	Coller Capital
5	celonis	Software	$1.4	$13.0	QIA Qatar Investment Authority

Most active investors in Q3 2022 based on # of deals

VC / Growth investors

Rank	Investor	Deal #	# port. invest. (vs. Q2 2022)[2]
1	andreessen horowitz	10	6 (-50%)
2	Bessemer Venture Partners	6	6 (+50%)
3	G/	6	5 (--%)
4	SEQUOIA	6	4 (-74%)
5	INSIGHT PARTNERS	5	4 (-69%)

Crossover investors

Rank	Investor	Deal #	# port. invest. (vs. Q2 2022)[2]
1	TIGERGLOBAL	7	2 (-86%)
2	TEMASEK	6	4 (--%)
3	ISCHYROS NEW YORK	6	0 (--%)
4	BlackRock	4	1 (+100%)
5	CPP Investment Board	4	0 (-100%)

Highest valuation watermarks for Series A or B raises in Q3 2022

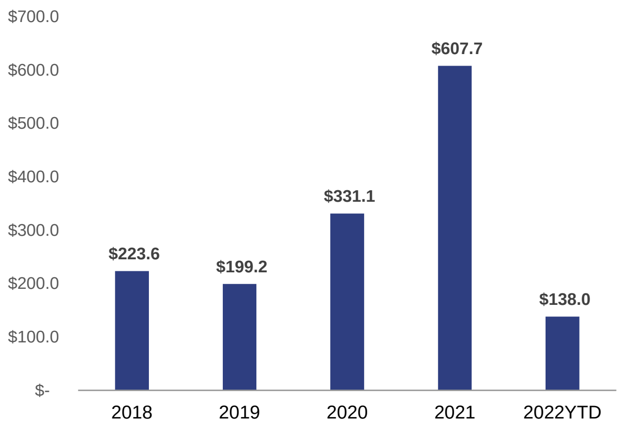
Rank	Company	Sector	Deal size ($m)	Valuation ($bn)[1]	Lead investor(s)
1	Blockstream	Crypto	$163	$2.5	Baillie Gifford
2	APTOS	Blockchain Infrastructure	$200	$2.4	FTX; jump
3	MystenLabs	Blockchain Infrastructure	$300	$2.0	FTX
4	[illegible]	Blockchain Gaming	$190	$1.7	Buckley Ventures; Standard Crypto; Paradigm
5	Incredible Health	HealthTech	$80	$1.7	Base10

Source: Pitchbook including all completed VC and growth equity deals with < $250 million in pre-money equity value or unpriced. Press releases. CrunchBase. CB Insights
Notes:
1 Post- money valuation
2 Difference show is delta between Q2 and Q1 2022 proportion of deployment in existing portfolio companies relative to total investments in the quarter

What about the IPO market?

Conditions in the IPO market remain subdued. Global IPO proceeds ytd to end September 2022 are at $138bn, sharply lagging the figures for 2020 and 2021 and still well below the levels of 2018-19.

Global IPO Proceeds ($bn)



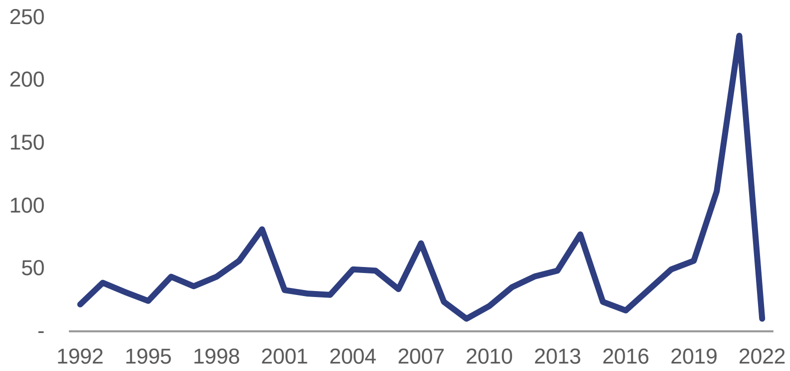
Source: Dealogic with PwC analysis as of 30 September 2022

Geographically the 2022 IPO proceeds are heavily skewed to Asia and the Middle East. According to Dealogic data YTD Asia Pacific and the Middle East has seen $86bn raised in IPOs, two thirds of the global 2022 total.

This leaves the US and Europe lagging well behind. To the end of September, the US had seen 32 IPOs ytd, putting it on a par with the level achieved in the global financial crisis of 2008 and substantially below the post 2000 median number of 116 IPOs a year. Dealogic/PWC estimate that YTD IPO proceeds in the Americas are at c$22bn (16% of the global total). After Q1 saw $13.9bn raised, Q2 and Q3 respectively saw just $4.7bn and $3.3bn raised. This includes proceeds from the US SPAC market. US SPACS peaked in terms of issuance at $98bn in Q1 2021. This fell back to a mere $0.7bn in Q3 2022. US IPO value is at a six-year low.

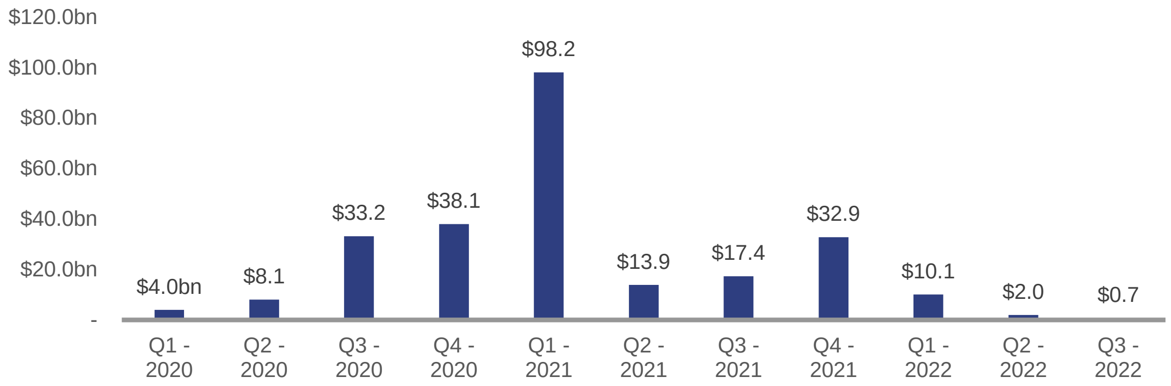
US IPO value at six year low

YTD deal value (USD)



Source: Dealogic

IPOs proceeds ($bn) – 2022 YTD US SPAC analysis



Source: Dealogic with PwC analysis as of 30 September 2022

European IPO proceeds were buoyed up in Q3 by the Porsche IPO. Rothschild & Co acted as the financial adviser to Volkswagen on the €9.4bn IPO Porsche AG on the Frankfurt Stock Exchange.

The deal implied a market cap for Porsche of c€78bn, which means the transaction was the largest ever EMEA IPO by market cap, and the third largest ever European IPO in terms of offer size

Despite the size of the offer and the challenging market backdrop - indices were down by c10% in the prior month and volatility elevated- the offer was multiple times oversubscribed. Final pricing came at the top end of the marketing range (€76.50–€82.50), with valuation on a p/e basis at a premium to the average of the "standard luxury" comps.

So, does this mark the possibility of a change in mood and a potential resumption of IPO activity?

1. Europe has experienced a major and successful IPO with the €9.4bn ***Porsche*** deal.

2. In the US Intel has just listed its autonomous driving company ***Mobileye***. The IPO was priced at $21 per share or c$16.5bn. Although this was down from earlier aspirations of a $50bn valuation, it still represented the largest company to go public in the US in 2022. The IPO price of $21 was above the tentative range of $18 to $20 outlined in offering documents filed with the SEC. On the first day of trading the stock opened a $27 and closed at just short of $29, valuing the business at $23bn.

The approach taken to the IPO was a cautious one with only about 5% of the stock offered, raising $860m. A significant portion of this was pre-assigned to two cornerstone investors leaving about c3% of the company (c$$0.5bn) available to the wider market.

3. In the UK ***Ithaca Energy***, the North Sea Oil producer, has announced plans for a London listing with an up to £310m offering which would imply a market cap of c£3bn at the top end of the range. The energy sector has been one of the few bright spots in the market this year.

So, what happens next?

The Porsche and Mobileye listings are large IPOs, successfully carried out. Both were spin outs from a parent business rather than the IPO of a new, unfamiliar business. Although they have demonstrated that large IPOs can take place in the current environment, they have not been followed by a rush of other deals.

Meanwhile companies continue to postpone or pull planned IPOs.

Instacart Inc, which for most of this year had said that it was planning to IPO towards the end of 2022, is now delaying any such IPO until at least 2023 according to press reports. Bloomberg reported on October 21 that its CEO Fidji Simo, wrote in a memo to staff that *"extremely tumultuous"* markets made it *"highly unlikely"* that an initial public offering would be possible for the company in 2022. Others like Israeli cybersecurity unicorn Cybereason are now reported to be looking at other options having earlier this year filed for a U.S. IPO.

The successful IPOs may though mark the first glimmerings of a change in sentiment in the IPO market, a second derivative turn of things at least not getting worse. Once the IPO market reopens the question of supply should not be an issue – there is a backlog of good companies that would like to IPO and sponsors who will be keen to exit after the disruption to the market in 2022.

What are the factors to see for an IPO market revival?

1. It would help if the market would stop going down. The market is already bouncing along the bottom. The S&P 500 is down 21% ytd – albeit currently enjoying a bear market rally of c5% from mid-October. NASDAQ is down 34% ytd and has rallied more modestly since mid-October, held back by poor Q3 results from Big Tech. In effect, the market is bouncing along its lows. For the S&P 500 the main damage was done in Q2 2022, down 16%. The index has travelled overall sideways since the end of June. NASDAQ was down 10% in Q1, 22% in Q2 and is down c5% since the end of June.

2. …and if geopolitical risk receded A hard one to call. Plenty of tension points in the world. Russia and Ukraine are in the foreground and the situation there still has the potential to develop left field incremental risk. China-Taiwan sits in the background. Neither is comfortable.

3. Visibility on a likely peak to inflation and interest rates:

What's happened?

The market dynamic has changed radically in 2022 with the rise in inflation and the radical shift in interest rate policy by central authorities in an attempt to restrain inflation growth. The sharp rise in the cost of capital has depressed equity valuations. Pressure on the consumer, the impact of rising interest rates on property and asset values and the central action to temper growth has increased the risk of recession.

In the US the Fed has raised interest rates six times so far this year moving the Fed funds rate from 0.25%-0.5% to 3-3.25% by the September meeting and by another 75bps at its November meeting to 3.75% - 4%.

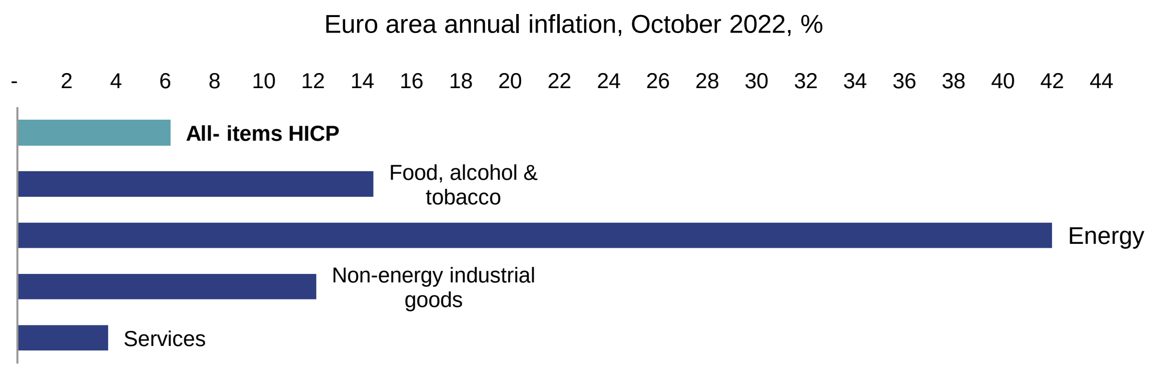
Inflation remains high. September's Commerce Department report on personal consumption expenditures (PCE) showed a month on month increase of 30bps, the same as in August. The yoy September inflation increase in the PCE price index was 6.2%. Ex the volatile food and energy components, the core PCE price index rose 5.1% yoy versus 4.9% in the 12 months through August. The Fed's inflation target is 2%

FOMC Meeting Date	Rate Change (bps)	Federal Funds rate
Nov 2 2022	+75	3.75%-4.00%
Sept 21, 2022	+75	3.0%-3.25%
July 27, 2022	+75	2.25%-2.5%
June 16, 2022	+75	1.5%-1.75%
May 5, 2022	+50	0.75%-1.00%
March 17, 2022	+25	0.25%-0.50%

Source: Refinitiv, Rothschild & Co

In Europe the ECB raised its deposit rate by 75bps in October to 1.5%. This is the highest rate since 2009 and follows several years where ECB rates had been negative. ECB President Christine Lagarde noted "*We will have further rate increases in the future*" although she also noted that *'substantial'* progress had been made in curbing the surge in inflation. Eurozone inflation yoy was at 9.9% in September and 10.7% in October. The ECB also has a core target of 2% inflation. GDP growth was at +0.2% for the Euro area in October after 0.8% growth in Q2.

Eurozone inflation reached 10.7% in October



Source: Eurostat

Second derivative turn?

The public markets continue to wrestle with whether, as economies slow and the risk of recession increases, the peak of inflation and the interest rate cycle might be coming into sight. This offers the prospect of the second derivative turn, the moment at which the peak of the deterioration in the interest rate environment comes into view. In turn this allows the market to anticipate the nadir of valuations and set itself up for a turn.

As a result, the Fed's commentary post its most recent rate rise was closely watched. The Fed's projections, released after its September meeting, suggested that most of its policymaker participants expected a peak policy rate of 4.50%-4.75% in 2023.

Ahead of the November meeting US markets were expecting a further 75bps rate rise and appeared to be discounting a further 50-75 basis point rise at the Fed meeting in December and for rates to peak at 4.75%-5% early in 2023, higher than the Fed had indicated in September.

The Fed duly delivered a 75bps increase in the November meeting. The commentary had something for both bulls and bears.

For the bears Fed Chairman Jay Powell pointed out that the US has *'some ways to go'* to control inflation citing the apparent limited effect to date of the impact of rising rates on inflation indicators. He also observed that *'Data since our last meeting suggest that the ultimate level of interest rates will be higher than expected.'*

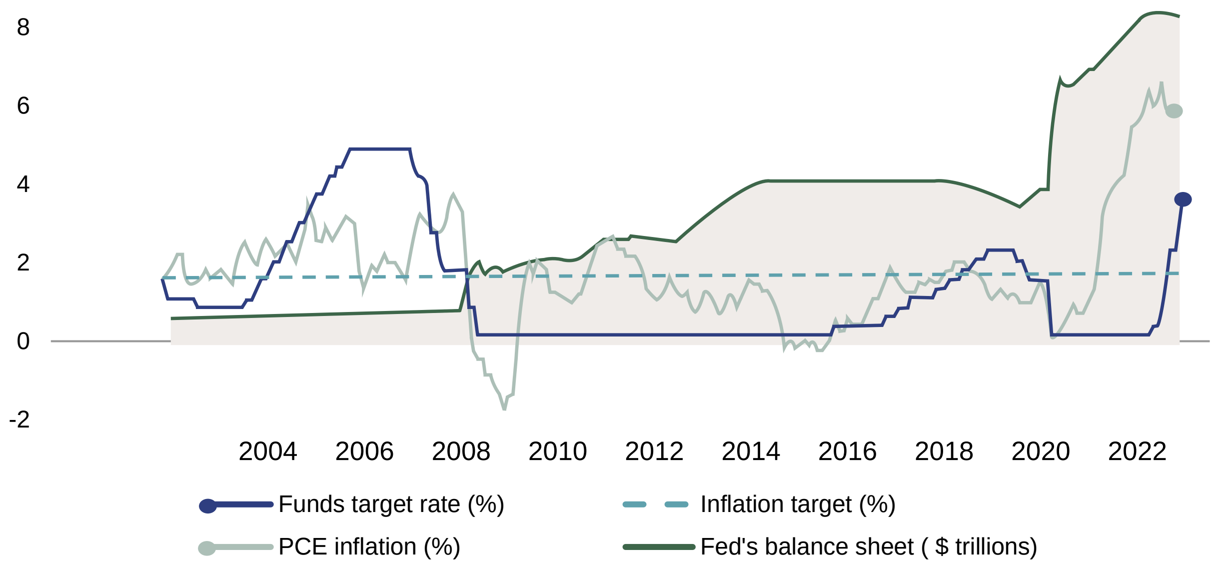
For the bulls the Fed Chairman indicated that inflation readings need not be reducing to see a slowdown in interest rate rises. There is an acknowledged lag effect between rate rises and their impact on the real economy and he said

"We do need to see inflation coming down decisively and good evidence of that would be a series of down monthly readings…..but I've never thought of that as the appropriate test for slowing the pace of increases.'

He also observed that the scale of rate increases may slow '*That time is coming, and it may come as soon as the next meeting, or the one after that."*

The next Fed meeting is on December 13th with the market now divided over whether this will result in a 50bps or a 75bps rate increase. Prior to the November meeting the consensus was leaning to a 50bps increase in December. Ahead of the November Fed meeting the market was looking for rates to peak at of 4.75%-5% early in 2023. The expectation has now shifted towards a peak of at least 5%.

The Fed's inflation challenge



Source: Refinitiv Datastream |Reuters, Nov. 2, 2022

In Europe, despite the high inflation figure for October, the market expects a slower rate of increase in interest rates at the December meeting, expecting +50bps to 2%. Investors now appear to see rates peaking at c2.6% in 2023. This is down from earlier expectations for a peak at c3%. These hopes appear to be induced by lower wholesale gas prices as Europe has adapted its demand patterns, the annualization of the inflating effect of energy prices in Q1 2023 and slowing economic activity across the region.

For the moment the market remains uneasily poised. Investors sense that the rate of interest rate increases is likely to slow but, with inflation as yet untamed, the absolute peak of interest rates is not yet in sight. The second derivative turn – the idea of an end to the beginning of rising inflation and interest rates – would be encouraging for markets but is not quite yet in sight. When it is reached the market will have better visibility on the valuation backdrop as interest rates top out. The debate will then presumably move on to the length and depth of a possible recession and its implications for company earnings.

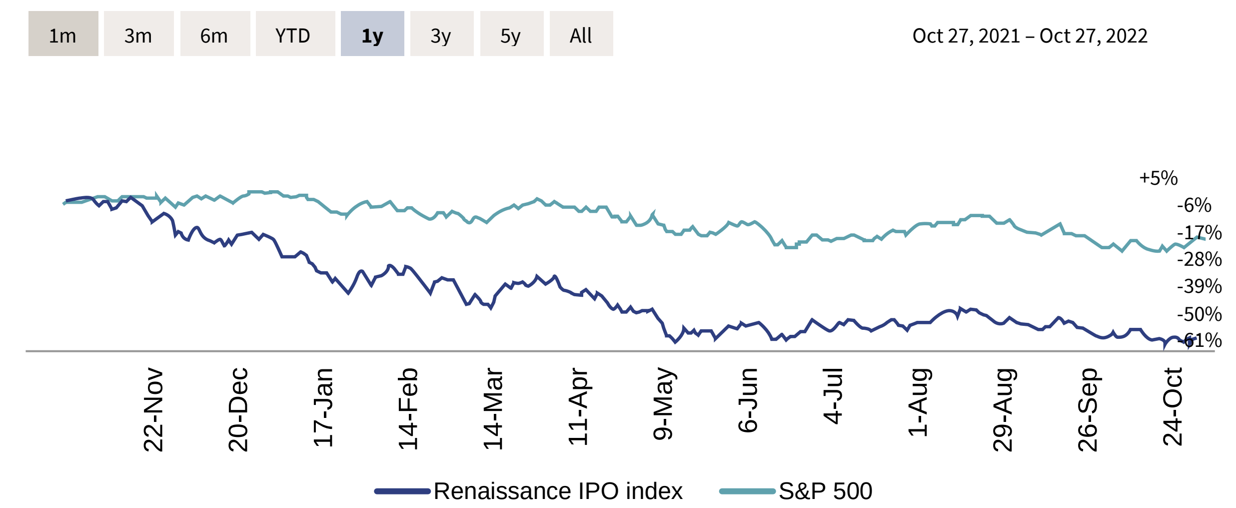
> *'In the short run the market is a voting machine but in the long run it is a weighing machine'.'*
>
> Benjamin Graham – The Intelligent Investor

4. IPO performance – investors need to feel that there is money to be made.

The overall performance of the most recent cohort of IPOs has been poor, in part reflecting its bias towards emerging tech stocks, one of the hardest hit parts of the market in the last year. The Renaissance IPO index tracks the performance of the largest, most liquid newly listed US IPOs.

The chart shows the performance of the Renaissance US IPO index versus the S&P 500 over the last 12 months. The S&P 500 is down 15% in that period, the Renaissance IPO index is down 58%.

Renaissance U.S. IPO Index Performance



Source: Renaissance IPO Index

The positive here is that IPOs in 2023 are likely to come at less aggressive valuations than the IPOs of 2021 reflecting both the lower market level and, in all probability, a greater focus on profitability rather than growth from the candidates coming to the market.

The hope for investors is that IPOs perform and make them money. Investors should be encouraged by the successful aftermarket performances of Porsche and MobilEye. Porsche has risen to more than €100 per share from its €82.5 per share float price. The MobilEye share price has also continued to trade substantially above its IPO pricing.

5. Supply of companies –a backlog of high-quality candidates: The radical slowdown in the IPO market in 2022 means that there is a substantial backlog of companies seeking to list. Although there may be an element of reluctance *'to go first'* it is likely, once the IPO window is perceived to be open, that companies will seek to take advantage and rush through while the opportunity is there. The quality of the companies coming to the market should, on average, be at least as good as those of their predecessors while the financial discipline imposed by the market correction may mean that the ostensible financials of these businesses are more attractive to investors.

6. Ability to show 2022 datapoints and likely performance in 2023: For investors to get behind companies coming to the market they will need to be to provide 2022 financials and/ or data points to show evidence of resilient trading for 2023 against the current challenging economic backdrop. It would, in this context, be useful also if these companies could provide medium term guidance.

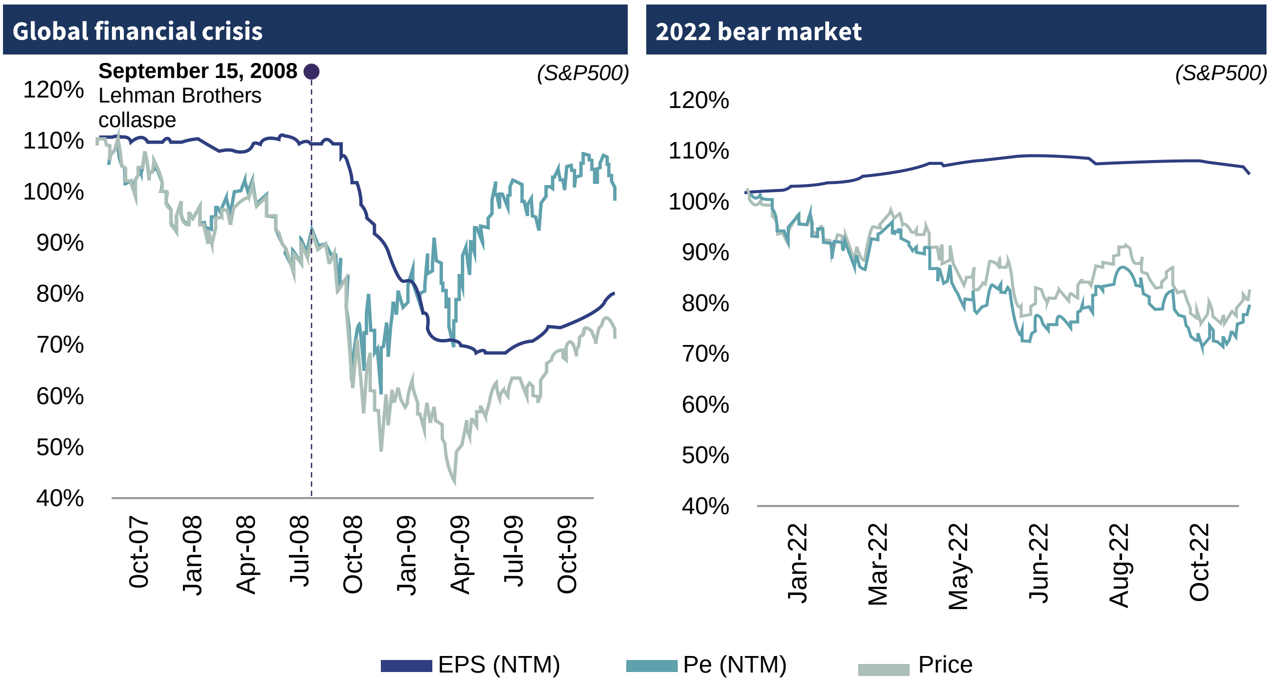
7. Closing the valuation expectation gap: A further factor may be the need to marry up the more conservative valuation approach of investors with the expectations of sponsors and founders. Investors have seen a tough 2022 in equity markets and have suffered cash outflows – European funds, for instance have had 36 consecutive weeks of cumulative outflows.

Despite the slowing economy, earnings forecasts for public companies are yet to fall that much. After a substantial number of Q3 earnings announcements, including disappointing outturns for US Big Tech, analysts' bottom-up estimates remain stubbornly high for the next 12 months. In total earnings forecasts are only c3% off peak estimate levels. As a result the market is sceptical around current 2023 and medium-term guidance from public companies.

The fall in the Stock market indices indicates the buy side anticipating earnings deterioration. However, while forward earnings forecasts remain high, this implies that multiples for public companies are depressed by recent standards.

As earnings forecasts start to fall (the crunch time will now be the FY results In Feb/March 2022) conviction around broker forecasts for 2023 and beyond should grow. As public company forecasts fall, their multiples should naturally inflate and the conviction around 2023 forecasts should increase. At that point, as multiples for public companies recover, the prospect of fundraising for growth oriented private companies becomes more attractive.

Earnings forecasts yet to be downgraded- valuation multiples expected to rally when earnings projections catch up with reality



Source: Rothschild & Co

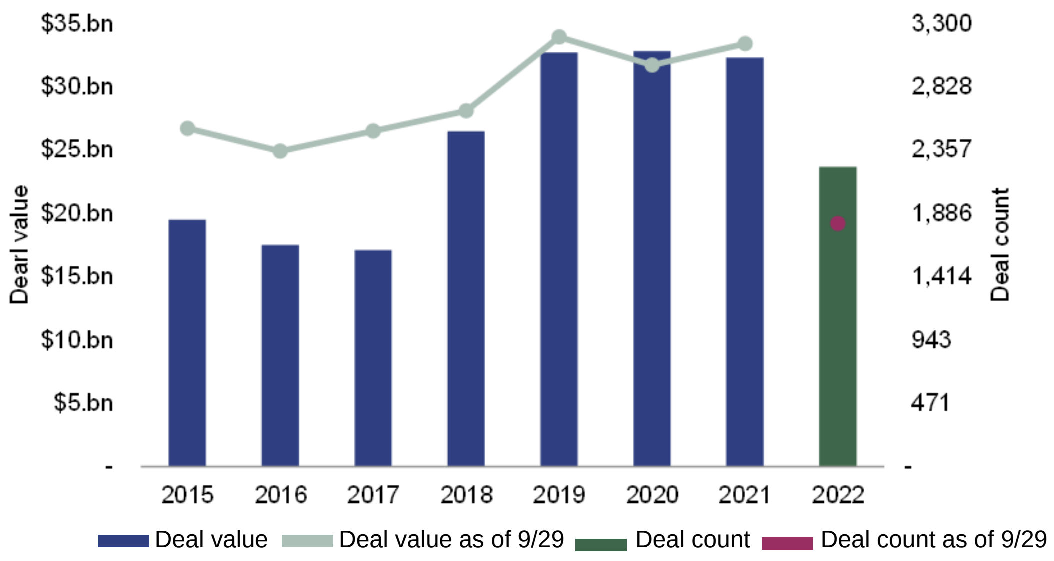
Venture debt – a slowdown in Q3

The environment for venture capital fundraising remains challenging. We have seen the total level of venture capital equity fundraising fall sharply yoy. Valuation is under intense scrutiny and the market has shifted towards business models with good unit economics, with a firm path to profitability and to self-funding status. Some companies have deferred raises. Others have sought to do internal rounds. A feature of the market in recent months has been the use of venture debt as an alternative or supplement to equity raises – a factor we commented on in edition 6 of our Growth Equity Update.

Historically the capacity of the venture debt market has been limited. With the changing market environment, it is now expanding. Recent reports suggest the entry of several new players into the market including Blackstone, KKR, Coatue Management, Viking Global and JP Morgan.

Despite this Pitchbook data suggests that US venture debt market activity in 2022 is no more than on a par with the levels of activity in 2019-21. US venture debt deal flow was c$22.4 bn in the first nine months of 2022. This leaves it on track to hit c$30bn for the year as a whole, similar to the levels seen in 2019, 2020 and 2021 (c$33bn each year).

US venture debt activity in 2022 is on a par with 2019-21

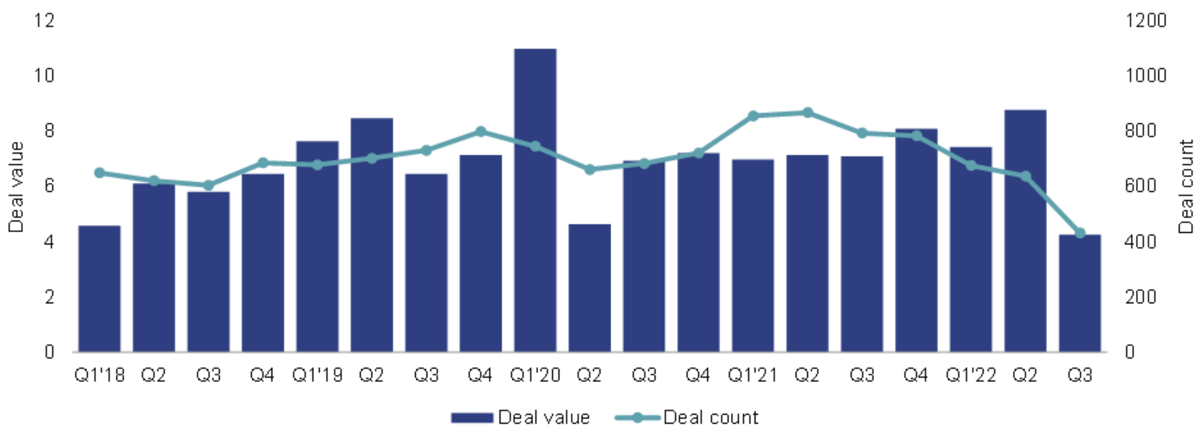


Source: PitchBook data
Note: as of Sep. 29, 2022

As we see from the chart, venture debt activity was particularly strong in Q2, just as the slowdown in venture equity fundraising began to bite. Q2 saw the highest quarter by value for venture debt fund raising since Q1 2020. Volumes fell back sharply in Q3, to the lowest quarterly level in recent years.

The decline in Q3 mirrors the overall fall back in venture capital fund raising in the quarter. It is also likely that it reflects the rising cost of venture debt following successive Fed rate rises. Venture debt companies are making a similar judgement to those of venture capital investors on the durability of business models. While business models with high recurring revenues can attract attractive rates of interest (we see this in the ARR based lending to companies with SAAS business models) spreads have widened for companies with more volatile business models. In turn this makes the scale of debt and the attractiveness of taking it on more demanding for start-ups.

US Venture debt activity slowed in Q3



Source : Pitchbook-NVCA Venture Monitor

Nevertheless, we are now frequently seeing start-ups using venture debt alongside a venture capital fund raise. Recent deals with such a structure include the $102m Series E ($78m equity, $24m debt) by German vacation rental software company Holidu; the $46m Series C of the UK embedded finance platform, Railsr ($26m equity, $20m debt) and the $96m Series D of New Jersey based operations management software company Sitetracker ($66m equity, $30m debt).

Investor Feedback

We monitor feedback from venture capital investors on the state of the market. The key themes we are seeing are

(i) Investors are seeing activity and value in seed and early-stage rounds

(ii) Attractive opportunities in later stage rounds are fewer and investors report a lot of internal rounds.

(iii) There is a sense that well placed companies are deferring raises in 2022.

(iv) Many investors we speak to observe they are *looking at opportunities and [are] open for business right now.*

(v) The sense remains that valuation expectations are still often too high and that founders' expectations have not fully adjusted.

Investor comments:

Deal Activity

Significant amounts of capital to deploy in the current market

Very keen to deploy

We have substantial assets in dedicated private funds which remain active

Active in seed but not much else

Given the state of the market also looking at Series A

More interested in earlier stage A-B rounds

Business models

Happy to look at businesses that are still pre-profitability so long as they have right long-term dynamics and pathway to profitability

Bigger focus on cash burn and making sure companies think about funding far enough in advance

Consumer/retail – generally nervous about the environment

Looking for businesses which can develop moats in the longer term versus just grow very fast on the back of a significant TAM.

Would not invest in businesses with negative gross margin

Valuation

Return requirements have increased with outlook worsening

Valuation in current environment: 15x ARR would pay for excellent businesses, otherwise would go for 10x

Not as much pressure on valuation in Seed / early stage as the rest of the market.

Valuation expectations have come in 15-20%

Premium still available for quality growth

Q3 venture funding…. a longer perspective

For a perspective on Q3 venture capital activity from a longer time perspective we take a data series from CB Insights.

The CB Insights headlines for Q3 2022 activity are:

$74.5bn total funding for Q3'22- down 34% QoQ. Global funding reached a nine quarter low in Q3 2022 at $74.5bn This was equivalent to a 34% sequential quarter drop — the largest quarterly percentage drop in a decade - and was down 58% from the funding peak in Q4'21.

44% drop in mega-round funding QoQ. This was also at a nine-quarter low. Using a $100m+ as the definition of a mega-round, these collectively accounted for $29.6bn in funding in Q3 22. It was a 44% drop QoQ. The number of global mega-rounds dropped to 144 for Q3'22.

71% drop in new unicorns QoQ. Q3'22 saw the creation of only 25 unicorns globally, a 71% drop QoQ, and the lowest since Q1'20. The US accounted for 14 of the new unicorns.

36% decline in European funding QoQ. European startups raised $14.8bn in Q3'22, a 36% drop QoQ and a 7-quarter low. Deals dropped by 11% to 1,584 US funding fell by 32% to $36.7bn, whereas Asia funding fell by 33% to $20.1bn.

42% drop in median deal size for late-stage rounds. The median size of late stage deals dropped to $29m— on a par with the median size of mid-stage deals. Investors' appetite for late-stage Series E+ deals continues to be diminished compared to previous year

In perspective … not so bad?

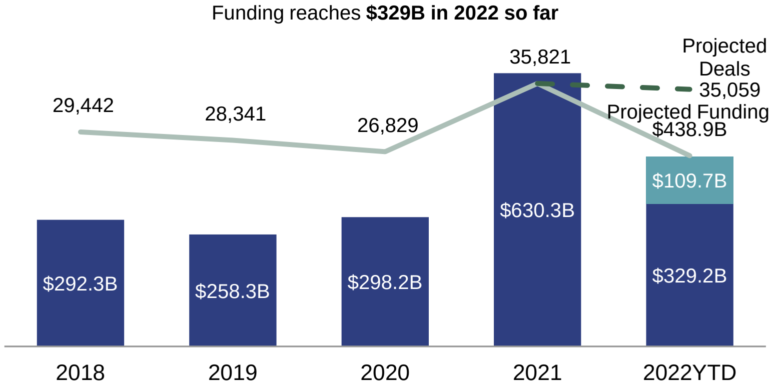
Total VC funding in the first 9 months of 2022 is ahead of the full year totals for 2018, 2019 and 2020:

The $74.5bn of funding in Q23 takes the 2022 ytd total to $329bn. That 9-month total is already substantially ahead of the full year totals for VC funding in 2018/19/20 where VC funding was between $258bn and $298bn.

The annualised 2022 run rate is $439bn, which would leave VC funding 47% higher than in 2022.

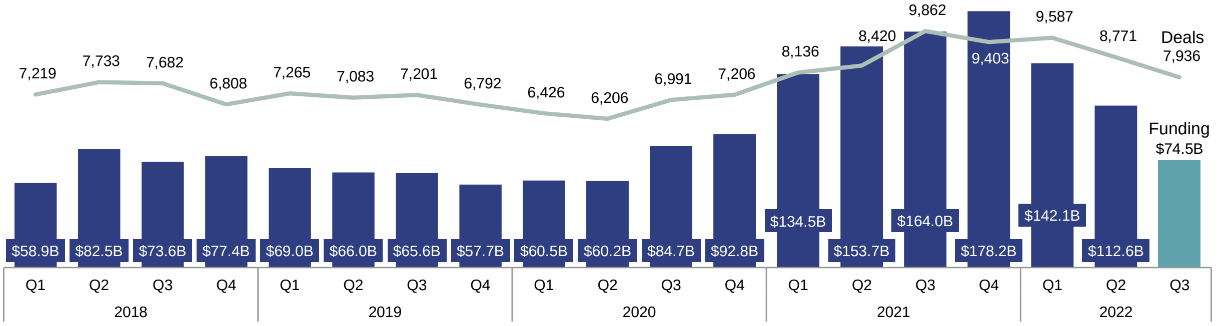
Even if the $75.4bn of Q3 were just repeated for the next four quarters that would give annualised VC funding of $298bn – on a par with 2020. The $74.5bn quarterly total is bigger than any quarter's funding in 2019 and bigger than eight of the twelve quarters 2018-20.

The 9-month 2022 VC funding level exceeds that of FY 2018. 2019 and 2020



Source: CB Insights

Q3 2022 VC funding at $74.5bnThe $74.5bn exceeded any quarter's funding in 2019 and H1 2020

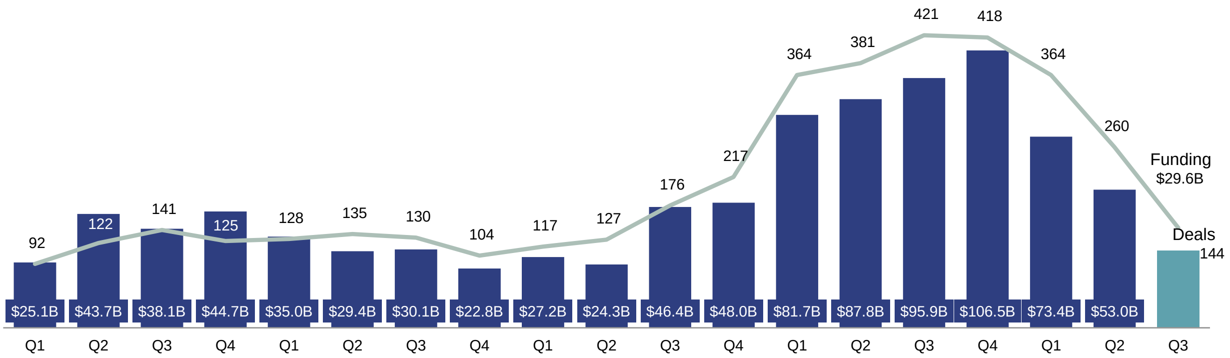


Source: CB Insights

Q3 2022's 144 $100m+ deals in Q3 2022 exceeded those of each quarter Q1 2018 to Q2 2020

There were 144 $100m plus deals in Q3 22 raising $29.6bn of funding. This was a 44% drop in funds thus raised QoQ and it was a nine-month low. The 144 such deals, however, beat every quarter between Q1 2018 to Q2 2020. The amount raised beat five of the 10 quarters in the same period.

Funding from $100m mega rounds



Source: CB Insights

Fewer unicorns – better value?

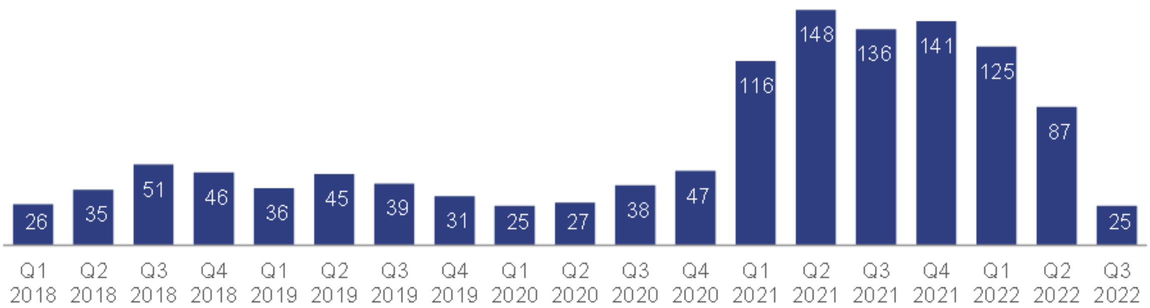
Q3'22 saw the creation of only 25 unicorns globally, a 71% drop QoQ, and the lowest since Q1'20. Indeed, along with Q1 2020 it is the lowest figure for unicorns created in 19 quarters. Three points to note.

(i) The period Q1 2021 to Q2 2022 saw a remarkable step up in the number of unicorns created at an average of 125 per quarter. The 12 quarters prior to that saw an average of 37.

(ii) the late 2020- early 2022 period saw a highly active exit market and high valuation multiples, fuelling the creation of unicorns

(iii) Although there may be a change in preference for business models underway in the current market environment it seems unlikely that the overall calibre of start- ups out there is any worse than it has been in the past. What it indicates is that how much investors have to pay for that calibre has reduced – which ultimately should be positive for venture capital firms and their investors.

Number of global unicorns created



Source CB Insights

Our views on the state of the venture capital markets

Since the start of 2022 we have seen sharp falls in the public markets on the back of a combination of rising global inflation, rising interest rates, and increased geopolitical risk. The Refinitiv Venture Capital Index, which seeks to monitor the real time performance of the venture capital industry is down 57% year to date, close to its lows in down in mid-June when it was down 58%.

Our summary of the outlook is:

- The deteriorating interest rate, inflation and macro-economic environment has had a sharp impact on valuations in private markets. The scale of the fall in the Refinitiv VC index is much more substantial year to date even than the fall on NASDAQ. This has been reflected in some big valuation falls on some high-profile VC rounds.
- There is substantial dry powder in the VC industry at c$500bn.This may now be prioritised to supporting existing rather than new investments but should support the overall market.
- Best-in-class companies, addressing critical rather than nice-to-have requirements, continue to attract support. There are still hotspots for investment notably in fintech, cleantech and software. Certain investors remain very active in the space with substantial funds to deploy.
- There will be a growing number of down rounds, albeit the substantial fund raising of 2021 and the ability of companies to eke out existing resources may limit the immediate number of these.
- The speed of the investment process appears to have slowed considerably. The volume of new deals has reduced. The level of diligence on new deals has stepped back up.
- In recent months the number of big late-stage deals has slowed down substantially. The strongest part of the market in terms of appetite appears to be in Seed and Series A where there is less pressure on valuation.
- Funding for the VCs themselves remains strong which is a positive indicator for H2 2022 and into 2023
- Valuation priorities have shifted with investors moving away from a growth and revenue multiple emphasis. There is a sharper focus on the path to profitability and positive free cash flow and an emphasis on DCF and comparative based multiples.
- An interesting paradigm is that earnings forecasts for public companies have not fallen much as yet, even through the Q3 reporting season. The fall in the market indices indicates the buy side anticipating earnings deterioration. This in turn means that multiples for public companies are low by recent standards. As earnings forecasts start to fall multiples should naturally inflate. At that point, as multiples for public companies recover, the prospect of fundraising for growth oriented private companies becomes more attractive.

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.

Skyroot $51m Series B

- Sole adviser on its Series B raise of INR 4,030m (US$51m) from GIC Private Limited and LK Advisers
- Looking to 'uberize' space for small satellite operators, Skyroot will use its differentiated solid propulsion technology to offer on-demand, affordable launch vehicles. It plans its first orbital launch by early 2023

Castore £50mn RCFn

- Sole debt adviser to Castore on its new multibank £50m Revolving Credit Facility
- Castore is a global premium performance sportswear retailer. Castore also partners with global sports teams, supplying products and managing their retail operations

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
- Follows US$170m Series D2 round in Sept 2021, on which we also advised

Marwyn Acquisition Company II: £500m equity raise

- 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

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

- FL Entertainment is composed of Banijay, largest independent content producer globally, and Betclic Everest Group, Europe's fastest-growing sports betting platform. Pegasus is an Amsterdam-listed SPAC
- Largest ever European SPAC business combination and PIPE raising

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

Kpler: Minority stake Acquisition

- Adviser to Five Arrows Growth Capital and Insight Partners on joint acquisition of a minority stake in Kpler Holding S.A. from its founders
- Consisted of acquisition of c.30% of secondary share capital of Kpler plus primary investment of €20m
- Kpler is a leading SaaS provider of data and analytics to energy markets

Harmay: US$90m Series D

- Advised Harmay on its US$90m Series D equity financing from a group of leading Chinese and global growth equity /venture capital funds
- Harmay is a premium beauty retailer
- Raise was led by QY Capital (an entity related to Alibaba New Retail Fund) plus existing investors

SEBA Bank: CHF110m raise

- Advised on fundraising co-led by a consortium of new investors specialised in blockchain and fintech including Altive, Ordway Selections and Summer Capital
- DeFi Technologies, leader in decentralized finance, and Alameda Research, a global cryptocurrency quantitative trading firm, also participated

First Digital Bank: US$120m capital raise

- Advised on capital raise through a syndicate of investors including Tencent, SBI Investment Co, Julius Baer, and West Coast Equity Partners
- First bank to receive a banking license in Israel for over 42 years and first neobank in Israel

Fibrus: £270m seven-year debt package

- Advised on package comprising a £200m capex facility, £20m revolving facility and up to £50m uncommitted accordion facility
- Fibrus is an alternative provider of full fibre network infrastructure and broadband in rural UK
- Highly active in European fibre infrastructure: our 7th debt financing mandate in UK fibre in last 3 years

Neuberger: US$4.8bn valuation Getty Images combination

- Advised on business combination valuing Getty at an enterprise value of US $4.8bn, equivalent to 15.2x enterprise value to 2022E Adj. EBITDA of US $315m
- CC Neuberger Principal Holdings II is a special purpose acquisition company that completed its IPO in July 2020, raising US $828m in proceeds

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

- Advised on combination with European FinTeach IPO Company 1 B.V - a SPAC that raised c.€382m through IPO on Euronext Amsterdam in 2021
- Azerion provides solutions to automate purchase and sale of digital advertising inventory
- Landmark transaction - one of the largest de-SPAC transactions across Europe to date

Gousto: £240m primary and secondary rounds

- £70m primary financing for food delivery company Gousto with Softbank Vision Fund 2 in Jan '22
- In Feb '22 secondary component of £170m from institutional investors including SoftBank, Grosvenor Food & AgTech, Railpen and Fidelity
- Valued Gousto at £1.2bn on a pre-money basis

GreenWay: €85m Series C

- Advised Greenway Infrastructure on its €85m Series C fundraise
- Led by a consortium of infrastructure funds including Generation Capital and Helios Energy Investments. The transaction is the first known investment by an infrastructure fund in an EV charging network in Central and Eastern Europe

Diabeloop: €37m Series C

- Advised on its €37m Series C capital raise
- Following extensive investor outreach, LBO France was chosen to lead the raise jointly with existing investors including Supernova Invest, AGIR à dom., CEMAG INVEST and Odyssée VenturesA
- Diabeloop provides automated insulin delivery system and handset facilitating diabetes management

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

[Chris Hawley]

Global Head of Private Capital

[chris.hawley@rothschildandco.com]

+44 20 7280 5826

+44 7753 426 961

[Patrick Wellington]

Vice Chairman of Equity Advisory

[patrick.wellington@rothschildandco.com]

+44 20 7280 5088

+44 7542 477 291

[Charles Kerecz]

Head of North American Private Capital

[charles.kerecz@rothschildandco.com]

+1 212 403 3784

+1 914 584 2957

[Stéphanie Arnaud]

Managing Director – France

[stephanie.arnaud@rothschildandco.com]

+33 1 40 74 72 93

+33 6 45 01 72 96