Rothschild & Co
Global Advisory

Growth Equity Update

December 2022 – Edition 9

- After a 5% rally in November, NASDAQ is down 29% ytd (to December 5th) .The S&P 500, up 6% in November, is down 17% ytd. The EuroSTOXX 50 is down 9% ytd after a 9% rally in November.
- 2022 has been a mainly tough year in global venture capital. After two very strong years (+65% in 2020, +23% in 2021) the Refinitiv Venture Capital index is down 53% ytd in 2022 as the fallout from rising inflation and interest rates and from the Ukraine war was felt.
- Mixed signals at the end of 2022. Markets rallied in November and the Refinitiv VC index rose 7%. At the same time the collapse of FTX led to self-recriminations in the VC industry and a collective resolve to reinforce the level of scrutiny of prospective venture capital investments.
- Public markets in 2023. The likely peak of interest rates appears to be visible. Earnings forecasts need to fall but the buyside has anticipated this process. A shallow recession in the Euro Area and the UK is probable but the US may avoid recession. All these economies should improve into 2024. It suggests a slow start for markets in 2023 but a stronger finish as the market discounts ahead to better conditions.
- Private markets in 2023. The private markets have been slower to mark the value of assets down. Many venture-backed companies, buoyed up with proceeds from 2021 have avoided new financing rounds in 2022 to await better market conditions and valuations in 2023/24. The inability for some further to defer fund raising, and the consequence of increased investor scrutiny, is likely to be a greater prevalence of down rounds in 2023. There will likely be fewer unicorns and more company failures.
- A good time to invest…Market studies indicate that in 2009-2011, post the GFC, down and flat rounds outperformed the up rounds. In all other years — the bull years — the opposite was true.

Venture capital markets in 2023

2022: The Ukraine War, a hawkish Fed and rising interest rates, sharp falls in global stock market indices and particularly NASDAQ, a longer IPO drought than that seen after the global financial crisis, c135k layoffs in the tech industry, the vicissitudes of crypto as expressed by the failures of Terra, Luna and FTX, the slowdown in VC funding and a 50% plus fall in the Refinitiv Venture capital index. An eventful and tough year.

2023: What should we expect?

Recession… or something close to it: Consensus global 2022/2023 GDP forecasts stand at c3%/2.4% with the G10 area at 2.6% /0.3%. Negative GDP growth is expected in the UK and the Euro area in 2023 (-0.8%/-0.1%) while consensus has marginal economic growth in the US at c+0.2%.

In the US inflation looks set to fall slowly in 2023 and the market expects the Fed rate to peak at 4.75%-5% near the start of the year. Unemployment begins to tick up and residential and business investment is weaker, but most commentators have the US just avoiding recession in 2023 and recovering relatively strongly in 2024 at +0.2%/1.5%.

For the Euro area the central case is that the effects of inflation, which although likely to have peaked (it was 10.7% in October) going into 2023, will persist to dampen investment and consumption. This means that 2023 will be a weak year for GDP growth and the 2024 GDP recovery relatively anaemic.

The UK is widely forecast to go into recession in 2023 with rising energy prices and mortgage rates negatively impacting consumer spending and the housing market. Unemployment looks set to rise. The impact should mean inflation falls and interest rates come off the top. Only a weak GDP recovery is expected though with consensus in 2023/24 at -0.8%/+0.9%.

Global consensus economic forecasts

GDP growth %	2022	2023	2024
Global	**3.0**	**2.4**	**3**
G10	**2.6**	**0.3**	**1.5**
US	1.9	0.2	1.5
Euro Area	3.3	(0.1)	1.6
Japan	1.5	1.3	1.1
UK	4.4	(0.8)	0.9
Emerging Markets	**3.3**	**3.9**	**4.1**
China	3.2	4.9	4.8
India	6.8	7	5.9
Brazil	2.8	0.6	1.7
CPI %	**2022**	**2023**	**2024**
Global	8.1	5.9	3.2
G10			
US	8.1	3.9	2.3
Euro Area	8.6	5.6	2
Japan	2.3	1.9	1.3
UK	9	6.9	2.3
Policy rates (end of year}	**2022**	**2023**	**2024**
US	4.375	4.25	4.25
Eutro Area	2	2.35	2.35
Japan	(0.1)	-	-
UK	3.5	3.9	3.9

Source: Consensus of leading global investment banks via Bloomberg

Stock Markets – Better? Although volatility in markets has been intense in 2022, the bottom line is that broader markets have moved roughly sideways for the last 6 months (to December 5th, S&P 500 -3% , Euro STOXX 50 +3%) albeit NASDAQ has lagged at -7%). The three factors dictating to markets (apart from exogenous geopolitical shocks) are likely to be:

Anticipation of the peak of interest rates: Most commentators have inflation peaking in late 2022/early 2023 and the Fed may start slowing the pace of its interest rate rises as early as its meeting on December 13 with the market now looking for interest rates to peak at 4.75%-5%. The sight of a potential peak in interest rates should be an encouragement to markets.

Earnings forecasts need to fall: Despite the deteriorating economic outlook earnings expectations for public companies have remained stubbornly high through 2022 even through the Q3 results season when the market might have expected a dose of reality to hit. In total earnings forecasts are only c3% off peak estimate levels. As a result, the market is sceptical of current 2023 and medium-term guidance from public and private companies alike and about the low implied multiples sported by public companies. A reset of earnings expectations may have a short-term negative effect on markets, would most likely hit cyclical sectors worst but would pave the wave for market and even IPO revival later as a lower base of earnings expectations is set and potentially as multiples expand.

Recession and markets: Markets can outperform in recessions. Indeed, most forecasters have the US avoiding recession and just shallow economic reversals in the Euro area and the UK with the beginnings of a revival in late 2023/early 2024. As the market is a forward discounting machine it should anticipate economic revival 3-6 months in advance, meaning that by mid-year 2023 it should be anticipating better economic times. This combined with more credible earnings forecasts by that stage, and what are likely to still be low valuations, may set the board for a Stock market revival.

And venture capital?

More down rounds: The funding environment has become more difficult in 2022 but, with some notable high-profile exceptions, the number of downrounds has been relatively limited. There have been multiple reasons for this. The exceptional year of fundraising in 2021 meant that many companies entered 2022 with access to plenty of capital. Early in 2022 there was a major shift across the venture capital sector from the pursuit of out-and-out revenue growth to cash preservation and the pursuit of the path to profitability and positive cash flow.

There will be a reckoning. The Refinitiv Venture Capital Index has fallen 50% and NASDAQ c30% in 2022. Public companies have already reflected these valuation moves because they are traded every weekday. There are fewer "marks" for private companies and most often they arrive with a fundraising. 2022 has seen many companies extend their cash runways with internal rounds, avoiding a valuation reset. Across the board, though, fundraisings can only be deferred so long. Though there will be differences across sectors and companies it is inevitable that more companies will be in a position where they have to raise in 2023 and , even if unwilling to dilute, the market will dictate for many of them a down round.

"The smell of a high post money in the previous round is making companies very unappetizing to new investors right now. Leading down rounds is not attractive to most investors"

Eric Paley - Managing Partner at Founder Collective.

According to Peter Singlehurst, head of private companies at Baillie Gifford (as reported at a recent FT conference) the peak level of down rounds is likely to occur in the middle of 2023. This is based on history showing that the peak frequency of down rounds is normally around 18 months after the stock market peak (which was December 2021).

Niklas Zennström, the co-founder of Skype and now CEO of venture capital firm Atomico. observed at the recent Slush conference that companies and founders should not feel opprobrium if they are facing a down round. Instead, his advice was to get on with the fund raising if it is necessary:

"Firstly, 'down rounds' are just a function of the broader market. It's the reality we're facing right now. People aren't willing to pay what they were a year ago for shares in a technology company. …. In this environment a lower valuation is no reflection on you. It's market dynamics."

"The biggest issue with down rounds is that people leave them so late. It's easy to hope the market will improve. I've seen founders tempted to put off the raise waiting for things to change. For a company that is pre-profit, that means eating into future runway. And the less runway a business has, the riskier that company becomes."

The alternative could be *"a rescue financing littered with aggressive liquidation preferences and exit clauses. Don't let that be you."*

The head of state-owned British Patient Capital, Catherine Lewis La Torre, observed to the FT in late November that there is:

"……more caution in the market. There is evidence that there is that pullback, but there is a lot of dry powder still out there. I'm hopeful that there will be more activity coming back into the market, but investors are going to be much more selective in terms of what they invest in. We're going to be in for very challenging times ahead."

Writing in the Harvard Business Review Micah Rosenbloom observes that *"Tough times put investors into triage mode."* His observation is that VC investors will focus predominately on the most mature and safest businesses in their portfolios with the greatest chance of getting to IPO in the next few years."

He comments:

"Beyond that fortunate group, the funding situation will be less secure. The market for pre-seed and seed rounds should remain relatively active, since those companies are many years away from even thinking about going public. But even in the seed market the bar could get higher….. Series A and B startups may be the hardest hit. Many teams that have made solid progress but still present unanswered questions about their product-market fit, go-to-market strategy, or total addressable market size may struggle to raise their next round on any terms."

Micah Rosenbloom - The Harvard Business Review

"I can tell you that, for the next three to six months, we're going to dream a little less."

Doug Leone of Sequoia

Some failures: Some commentators are even more downbeat on the prospects for some venture backed businesses in 2023. Here's Doug Leone of Sequoia Capital:

"The situation today I think is more difficult and more challenging than either '08, which was really a protected financial services crisis, or 2000, which was a protected technology crisis. Here, we have a global crisis. ….I think we have to be ready for a prolonged time where we're going to find … consumers running out of money, demand decreasing, tech companies' budgets being cut."

"Think of what happened in the last two or three years: whatever you did was rewarded by some investor because of the plethora of capital. You were rewarded no matter what — you made a [bad] decision, you got money; you made a good decision, you got money….. All that is gone."

Northzone partner Par-Jorgen Parson has commented that there will be some "*spectacular failures*" amongst venture -backed unicorn companies.

Maelle Gavet, CEO of pre-seed investment firm Techstars, thinks the main problem will be for late-stage companies.

"We are seeing difficult times for companies there, with value declines of 70% and great difficulty in raising money in general. These are companies that were built for a quick IPO, either through SPAC or a direct IPO, and all of that no longer exists. Also, the companies that issued through SPAC and in general created a negative impact on the industry affect the future. Companies in less advanced stages will be able to raise, mainly through their existing investors, even if it will be accompanied by a decrease in value.

A down round may not be always possible and, frankly, for some of them even a down round may not be a viable option for external investors. I do expect a certain number of late-stage companies basically disappearing."

Micah Rosenbloom comments on the predilection of venture capitalists to take up new businesses rather than look again at existing businesses.

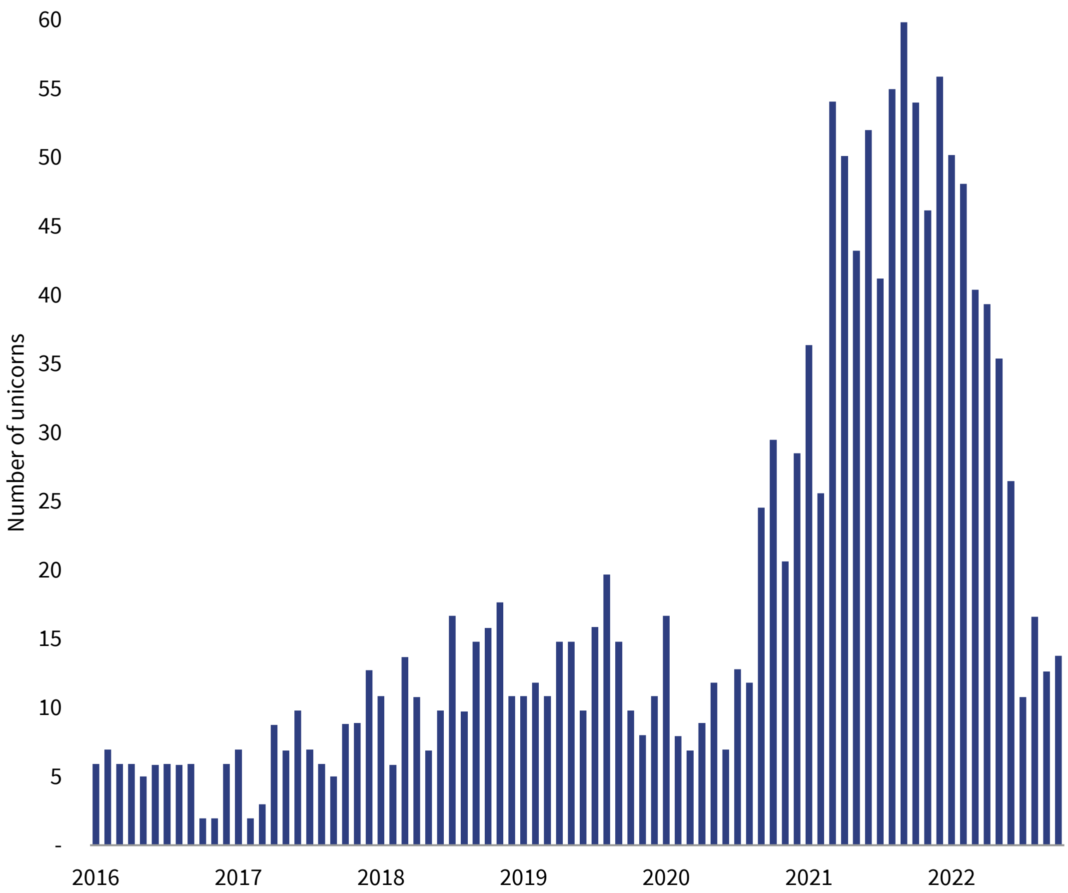
"….down rounds" aren't worth the trouble for most VCs. Recapitalizing a start-up requires the new investor to balance the legal rights of the existing cap table, resetting the expectations of employees, and their own needs — it's almost always easier to fund a new start-up."

Fewer unicorns

A corollary of lower valuations is that the growth in the number of unicorns will slow, while it is likely that many companies classed as a unicorn on higher valuations in 2021 will no longer be unicorns in 2023.

Pitchbook reports that in Q3 2022 41 new unicorns were created versus 159 in Q3 2021. Indeed, the number created in August 2021 alone – 42- exceeded the quarterly total for Q3 2022. There were more than 1,230 active unicorns as of Nov. 1, 2022. Around a quarter of these have a valuation of less than $1.2bn. Given valuation falls a large number of these may find they no longer command a unicorn valuation by the time of their next funding round.

Creation of unicorns over time



Source: Pitchbook
Unicorn Companies Tracker | PitchBook

Closer scrutiny: The failure of FTX and other high-profile reversals in the venture world mean that it is likely big investors will scrutinise their holdings and potential investments much more closely. FTX's board, for instance, comprised just three people, Sam Bankman-Fried, an FTX executive and an unnamed lawyer from Antigua & Barbuda, where it was incorporated and who left the board several months before the business collapsed.

In response to the FTX incident where it wrote off its investment of $150m, Sequoia Capital was reported by the Wall Street Journal as telling fund investors that *"The firm will be in a position to have even early-stage start-ups financial statements audited by one of the Big Four accounting firms."*

Doug Leone of Sequoia commented that the FTX episode may change its investment style for a period. While Leone asserts that Sequoia is *"in a dream business"* with founders and new companies he added "*I can tell you that, for the next three to six months, we're going to dream a little less."*

"The firm will be in a position to have even early-stage start-ups financial statements audited by one of the Big Four accounting firms." Sequoia Capital

Marcello Claure, who stepped down as COO of Softbank in January 2022, commented:

"I have been reflecting personally on the whole FTX fiasco and it taught me one more time that we should NEVER invest because of FOMO and we should always 100% understand what we are investing in. I totally failed here on both."

There has been plenty of evidence that, as private company valuations have come under pressure in 2022, the investment processes by venture capital funds in these businesses have become longer and more demanding. Increased venture capital due diligence is likely to be a feature of 2023. In turn, this will extend the length of time it takes for private companies to be able to raise capital, putting further pressure on those companies that have shorter funding runways.

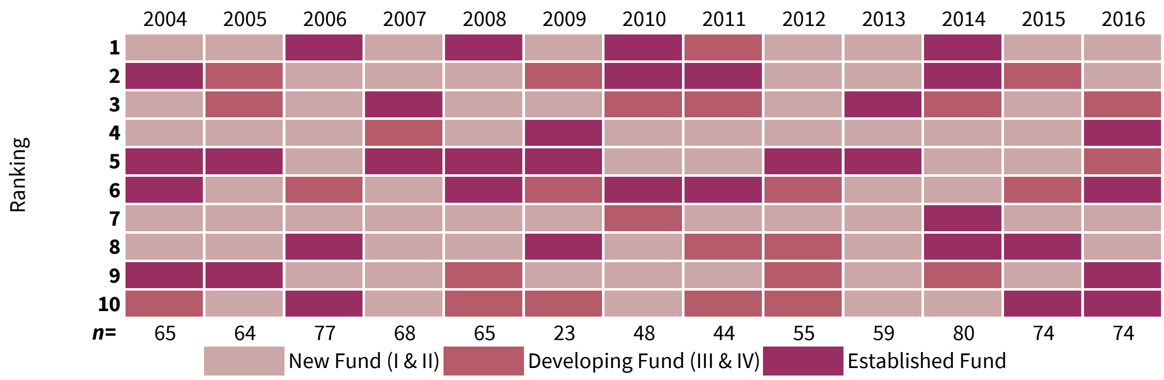
Fundraising for VCs concentrated in large funds: The downturn in the VC market in 2022 appears to have led LPs to concentrate their investments in larger funds. According to PitchBook data, funds sized at $1bn or over have received 60% of the capital allocated in 2022, up from 34% in 2021. Volatile market conditions appear to have led to a flight to safety, perceived to be amongst the larger VC funds. Quoted in Forbes, Garth Timoll, an MD at Top Tier Capital Partners, comments:

"If you're an institutional investor and you have the choice between investing in Andreessen Horowitz's $9 billion fund versus firm XYZ's new fund, it's like how no one gets fired for investing in Coca-Cola stock."

As part of this process, the 2023 venture capital budgets of many LPs are likely already to be mainly destined to existing VC firm relationships. Brijesh Jeevarathnam, global head of fund investments at Adams Street Partners observes "*I think it's hard to foresee a scenario where through 2023, this changes radically."*

Interestingly this comes even though the evidence suggests that smaller funds tend to outperform their larger peers. According to Pitchbook data US vehicles under $250 million have significantly outperformed those above that threshold over the past four quarters (PitchBook Global Fund Performance Report).

New and developing funds are consistently among top 10 performers
Ranking, as of June 30, 2019 • US VC Funds by Vintage Year • Based on Net TVPI



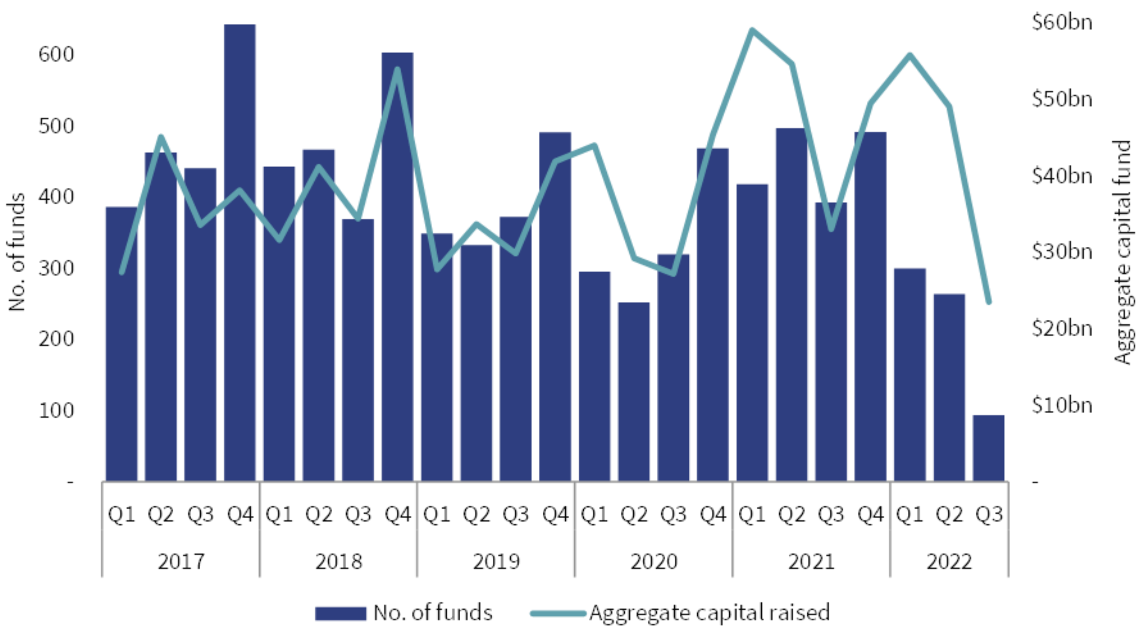
Source Cambridge Associates. LLC Private Investments Database in January 2020 research article "Venture Capital Positively Disrupts Intergenerational Investing." Cambridge Associates notes: Pooled total value to paid-in capital (TVPI) multiple is net of fees, expenses, and carried interest. Fund order is determined as funds raised under the same strategy and does not include friends and family funds. New fund is defined as the first or second fund, developing fund is the third or fourth fund, and established fund is the fifth fund and beyond. Vintage years formed since 2016 are too young to have produced meaningful returns. Vintage years with less than 40 funds in the sample have fewer than 10 funds in the first quartile: in 2009. the first six funds are top-quartile, the last four funds are second-quartile.

Venture capital funds raised $151bn in the first three quarters of 2022 according to Pitchbook. The momentum has remained strong. Despite vicissitudes in the venture market Lightspeed Venture Partners raised $7.1 bn in July, Bessemer Venture Partners closed a fund of $4.6bn in September with Scale Venture Partners closing a $900m fund. EQT Ventures has just raised €1.1bn for its third fund in the largest fund raise in Europe to date in 2022. Ted Persson, a partner at EQT Ventures, told Reuters the fund had slowed its investment pace early in 2022 but planned to ramp it up in 2023 given attractive valuations in the market.

A notable feature of 2022 has been the downscaling of investments by cross over funds – institutional funds who are not traditional venture specialists. These were amongst the most active investors in venture backed businesses in 2021. Many of them scaled back their activity drastically in 2022 as conditions in the VC market deteriorated.

Dan Aylott, head of European private investments at Cambridge Associates quoted in Private Equity Wire comments: *"I think some of those investors will have a lot on their hands in terms of dealing with the issues in their portfolios and that's where we'll see the biggest contraction."*

VC fundraising by quarter, since 2017



Source: Preqin Pro

Analyst note: Venture Capital Historical Fundrasing (USD bn) as at 11 Aug 2022

What about exits?

2022 has been marked by the effective closure of the IPO markets in the US and Europe. Global IPO proceeds ytd to end September 2022 were at $138bn, sharply lagging the figures for 2020 and 2021 ($331bn/$608bn annually) and still well below the levels of 2018-19. With $86bn of the 2022 total raised in Asia Pacific and the Middle East, the US and Europe have contributed just $52bn.

The IPO market is off the bottom following the listings of Porsche in Europe (a €9.4bn offering) and MobilEye in the US. High profile potential IPOs though continue to be delayed. Fidji Simo, the CEO of Instacart Inc which had long said it was planning an IPO at the end of 2022 said recently 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. The Softbank owned chip maker Arm has said that it will now not float in the fiscal year to March 2023 although a spokesperson also said, "*we are well advanced in our IPO readiness process and we remain fully committed to a 2023 listing."*

The combination of events likely required to reopen IPO markets is likely to include:

(i) the public markets to stop going down

(ii) for geopolitical risk to recede

(iii) Visibility on a likely peak to inflation and interest rates

(iv) for investors to feel that there is money to be made in IPOs – the one-year performance of IPOs is poor

(v) a supply of high-quality candidates. This should be possible albeit commentators observe that c70% of the IPO backlog in the US consists of technology, healthcare and consumer assets, sectors largely out of investor favour at the moment

(vi) against a tricky economic environment, companies looking to IPO need to show 2022 data points and the ability to predict likely performance for 2023 and beyond

(vii) the valuation expectation gap needs to be closed

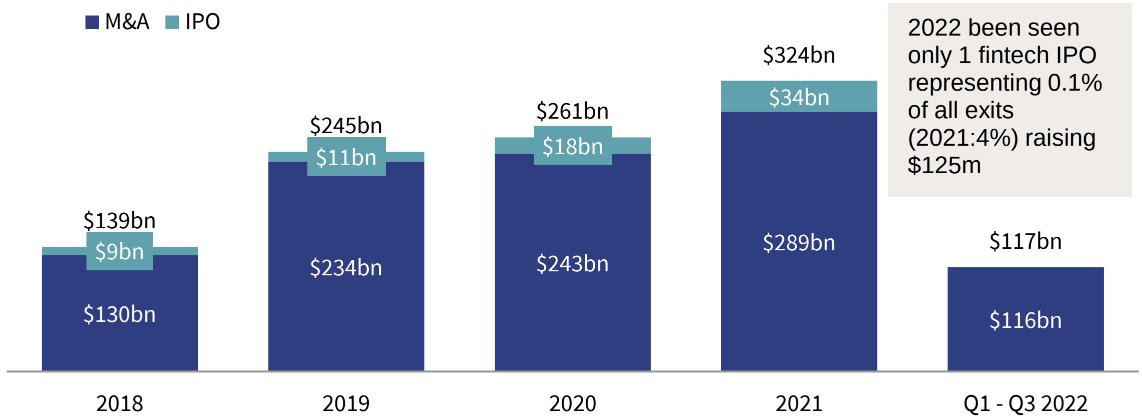
It may be difficult to marry up the conservative valuation approach of public investors with the expectations of sponsors and founders many of whom are likely to be facing an effective 'down round' at IPO. The temptation by managers and investors may be, if financial circumstances allow, to delay and see whether valuations recover further.

Conditions should improve in 2023 ...H1 unlikely to be a bonanza

The other option is M&A which remains a viable and, in some sectors, predominate form of exit. Indeed, the process of exit via M&A may be accelerated by more rational valuations and the demands of cash hungry businesses who may be finding it difficult to raise further VC funding.

The next chart, from Augmentum Fintech, illustrates that in fintech in the last five years M& A has consistently been a very much more substantial route to exit than IPOs.

Global fintech exit volume, 2018 – Q1 – Q3 2022, $bn



Deal Count (#)		2018	2019	2020	2021	Q1 - Q3 2022
	M&A	871	911	969	1486	998
	IPO	22	31	31	59	1

Source: Augmentum Fintech

A good time to buy....? With the Refinitiv VC index down c50% in 2022 valuations are lower than they were. Many of the companies looking for investment will be the same ones as before, albeit the financial discipline imposed by the market correction may mean that the ostensible financials of these businesses are more attractive to investors.

A study by data-science driven VC investor Equiam has analysed historical venture capital vintage performance over the past 42 years and has identified certain factors and circumstances that create ripe conditions for VC outperformance. Equiam identifies venture capital *"golden periods"* across recent history, where top-quartile VC outperformance—with TVPIs (the ratio of the total value of investments and cash distributions in/by a fund to the total amount of capital paid into the fund) exceeding 4.0—typically strikes three-to-four years after a certain threshold of yield curve inversion, per 1993, 2004, 2010, and our current trajectory as we approach the end of 2022.

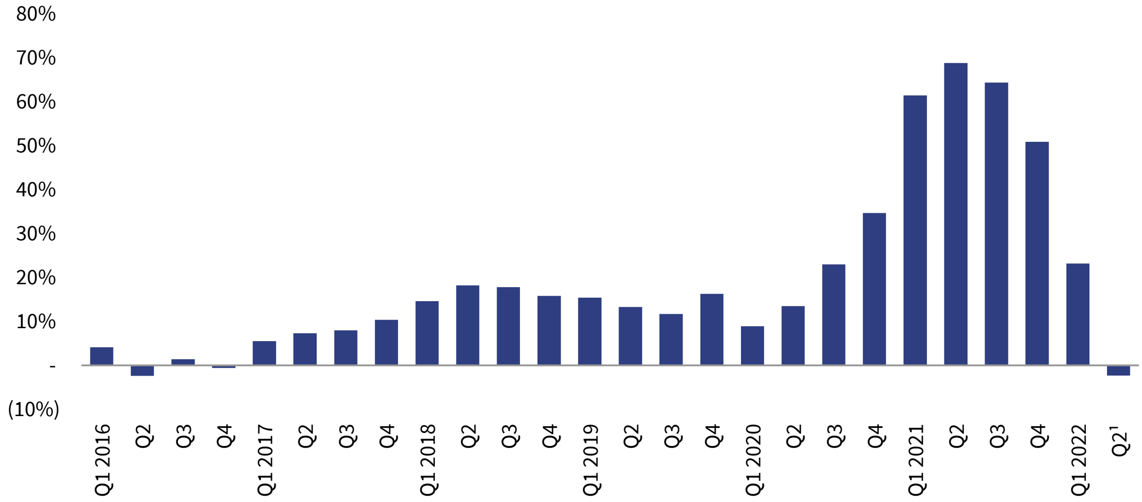
Investment firm 8VC notes that current early-stage valuations are back to more sensible levels from 3-5 years ago. Comparing the current situation to 2009-2011 post the GFC it finds that in 2009-2011, down and flat rounds (investments at lower-than-expected valuations, when investors were finding good businesses at "the right price"), outperformed the up rounds (when investors joined with others on hot investments). In all other years — the bull years — the opposite was true.

https://www.8vc.com/resources/the-once-and-future-king-vc-as-an-asset-class-in-2022-and-beyond

Venture Capital fund performance

PitchBook data shows that Venture Capital funds produced double digit percentage returns in nearly every quarter from Q4 2017 through Q1 2022. Preliminary data though suggests that VC funds produced a negative IRR in Q2 2022. The figure, calculated at -2.3%, is the first time that venture funds collectively have produced a sub-zero quarterly return since Q4 2016.

VC funds rolling one-year IRRs



Source:PitchBook data

Geography: Global

Note:1 Q2 data is preliminary

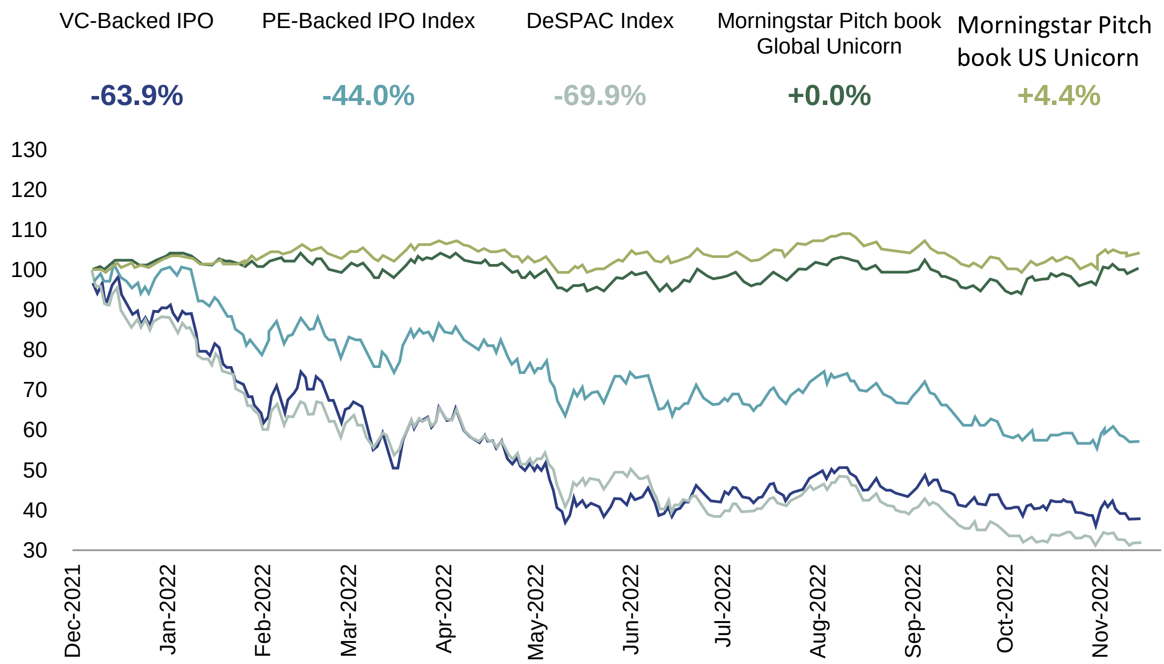
2 As of March 31, 2022

The performance figures are likely to be a lagging indicator of actual performance. Although venture firms are required to review the valuations of their holdings each quarter there are multiple methods of arriving at that valuation. For earlier stage businesses one of the most common valuation methods is simply to price the company at the level of the last valuation round unless there has been some major event specific to the company intervening in the interim. This clearly has the potential to delay any perceived fall in valuation until the next financing round. With many companies having raised in 2020/21 and anxious not to dilute themselves unnecessarily, there has been the temptation to hang on before raising again. This implies that 2023's rounds may induce a flurry of valuation downgrades.

Later stage, pre-IPO companies can be compared more closely to public company counterparts and VCs may in this category adjust the valuation of the private company in line with appropriate public company peers. Again, there is no requirement to follow this methodology. The next chart shows though what a sharp divergence from public market valuations that could cause.

PitchBook and Morningstar have developed a suite of indexes designed to track the performance of companies that have either recently transitioned from the private to the public markets or are unicorns (defined as companies with a post-money valuation greater than $1 billion) that may be entering the public market soon. The one year performance of the VC, PE backed and DeSPACed public companies ranges from -44% to -70%. The still private unicorns are depicted as flat to up 4.4% in value in the same period.

Pitchbook/Morningstar indices of the VC , PE backed and DeSPACed public companies and private unicorns – YTD 2022 performance



Source: Pitchbook/Morningstar

If VC valuations of private companies have not been reassessed to date, then there are two factors that may precipitate that reappraisal and lead to weaker returns for the VC sector through 2023. These are:

(i) The completion of new down rounds –as companies who have deferred raising eventually do so and face in many cases the impact of falling expectations of value compared with the heady valuations of 2020 and 2021

(ii) Deteriorating economic conditions may mean that start-ups miss their revenue targets. This would be enough on its own to reassess a private company's value. In combination potentially with a fall in external valuation metrics it could lead to a substantial reassessment of a private company's valuation

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 companies who can do so are deferring raises until market conditions and valuation improves

(iv) There is an expectation that 2023 will see more down rounds as companies are forced back into fund raising as runways shorten

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

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

Investor comments:

Deal Activity

More opportunities to write bigger tickets in cap table resets of larger companies

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

Some portfolio companies will be M&A exits rather than more cap raises

Investor appetite

Remain open for business and want to see new opportunities … but significantly more discerning

See opportunity in current market to make good returns

Open for business and looking for opportunities

Keen to see flow of ideas

Business models

Loss-making is fine but need to see best-in-class unit economics being delivered

Prefer capital-light

Key investment focus is quality of management

Positive unit economics

Only into businesses which are EBITDA generating

Valuation

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

Valuations in early stage benefitting from the time lag to when businesses will need to raise / be looked at vs public comps

Valuation expectations have come in 15-20%

Premium available for quality growth

Overpaid for some investments in 2021

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 53% ytd having been as much as 58% down in mid-June.

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.

▪ Many companies are taking steps to extend their cash runways while avoiding a full funding round. There are many 'interim' internal rounds ahead of planned larger rounds in 2023/24 in the hope that market conditions and valuations improve by then.

▪ The substantial fund raising of 2021 and the ability of companies to eke out existing resources has limited the number of down rounds but these seem likely to become more common as we move into 2023.

▪ The speed of the investment process appears to have slowed considerably with the level of due diligence on new deals having stepped up. This effect has been reinforced post high-profile reversals like that of FTX.

▪ 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 VCs themselves remains strong which is a positive indicator into 2023.

▪ Valuation priorities have shifted with investors moving away from a focus mainly on revenue growth and revenue multiples. There is a sharper focus on the path to profitability and positive free cash flow and an emphasis on DCF and comparative based multiples.

▪ Earnings forecasts for public companies have not fallen much in 2022, even post the Q3 reporting season. The steadiness of earnings forecasts combined with the falls in markets means that multiples for public companies have dropped. At the same time confidence in 2023 earnings forecasts is low as the market anticipates recessionary impacts. In private markets there is a similar scepticism around some of the growth ambitions of private companies built in a more expansive funding environment in 2021.

▪As public company earnings forecasts start to fall multiples should naturally inflate. 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

YuLife: c $800m Series C

- Adviser to YuLife on its investment by T Rowe Price
- TRP's first ever private investment in European FinTech
- The Series C extension values YuLife at c.$800m, a 3x uplift from its valuation at its Series B announced in July 2021

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