Rothschild & Co
Global Advisory

Growth Equity Update

January 2023 – Edition 10

- *"Prediction is very difficult, especially if it's about the future."* While recognising the implicit foolhardiness of doing so, we outline ten predictions for venture capital markets in 2023.
- These include the assertions that (i) corporate earnings forecasts are likely to be reset downwards (ii) but markets don't go down for ever (iii) that IPO markets will resume activity, albeit with a safety-first approach(iv) there may be a valuation reset in private markets (v) and more downrounds (vi) and fewer unicorns (vii) more due diligence in VC and a slower pace of fundraising (viii) M&A amongst private companies will likely pick up (ix) venture debt will play a more prominent role (x) by H2 2023 the market may be looking at inflation on a sharply downwards path, at interest rates that have already peaked and it may be anticipating earnings upgrades as a mild recession fades, paving the way for a more buoyant 2024.
- We review the key global statistics in a slower year for private capital activity in 2022 after the bumper 2021. We drill down on European fundraises by country, by sector and look more closely at the ten largest European fundraises of 2022.
- And we take a ground level view of what private capital markets feel like at the start of 2023.
- Some final statistics for 2022. The NASDAQ index fell 33%, the S&P 500 by 19%, the EuroSTOXX50 by 7% and the FT All-Share index by 3%. The Pitchbook-Morningstar index of recent VC backed IPOs fell by 62% and the Refinitiv Venture Capital Index by 55%.

The state of venture capital at the end of 2022

New themes emerged in the private capital market during a difficult year that witnessed a sharp decline across the entire equity capital market landscape compared to 2021.

2022 global deal volume sunk below 2021's record year, but still remained above levels seen in 2020.

1H 2022 deal volume remained strong as many deals launched in the frothier market of 2021 carried over into the new year.

As public market valuations contracted throughout the year, private valuations followed, resulting in a slower 2H for private deal volume (46% less deal volume and 56% fewer dollars raised compared to 1H 2022).

As valuations retreated, companies chose to do insider, unpriced and structured rounds to raise capital without the optics of a down-round. Companies were also forced to remain private longer and seek alternative forms of funding as macroeconomic and regulatory factors shut down the IPO and SPAC markets for much of 2022.

2022 private capital market statistics

Technology led private capital raises comprised 36% of dollars raised and 43% of deal volume (the Business Services sector was second making up 21% of dollars raised and 14% of deal volume).

Within technology, software and internet were the most active sub-sector comprising 84% of deals.

The average private capital deal size fell to its lowest level since 2019, but median deal size remained on a par with previous years (excluding 2021).

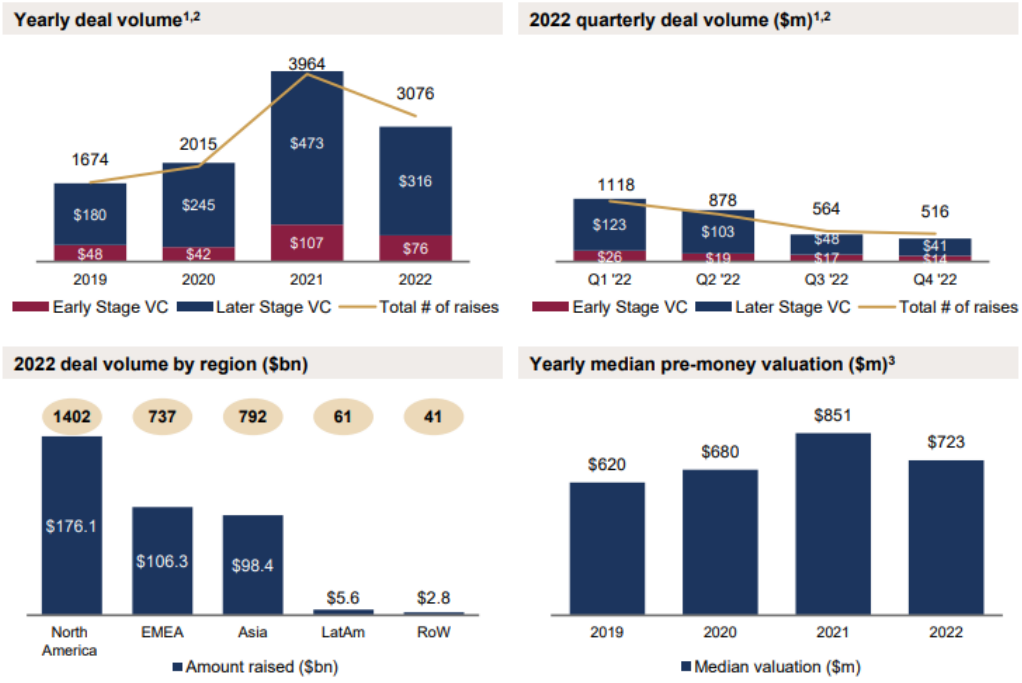
Insight Partners led all VC and Growth investors in activity, participating in 74 deals (2nd in 2021), while Tiger Global led cross-overs for the second consecutive year with 112 deals.

Top exits for private companies through market transactions included:

— Figma being acquired by Adobe for $20.0 billion (~100% premium to the $10.0 billion valuation received during its Series E raise in June 2021)

— Mobileye's IPO valued at $16.0 billion (discount to rumoured $50 billion valuation in December 2021, but modest premium to $15.3 billion purchase price by parent Intel)

— Beneficient Company Group's $3.5 billion SPAC merger with Avalon Acquisition (~60% premium to management's internal $2.2 billion valuation cited at the end of 2019)



Private capital market activity slowed in 2H 2022 as a result of broader macroeconomic headwinds stemming from geopolitical tensions

Deal volume by transaction value in 2022 fell 33% while the median deal size regressed back to match those seen pre-pandemic

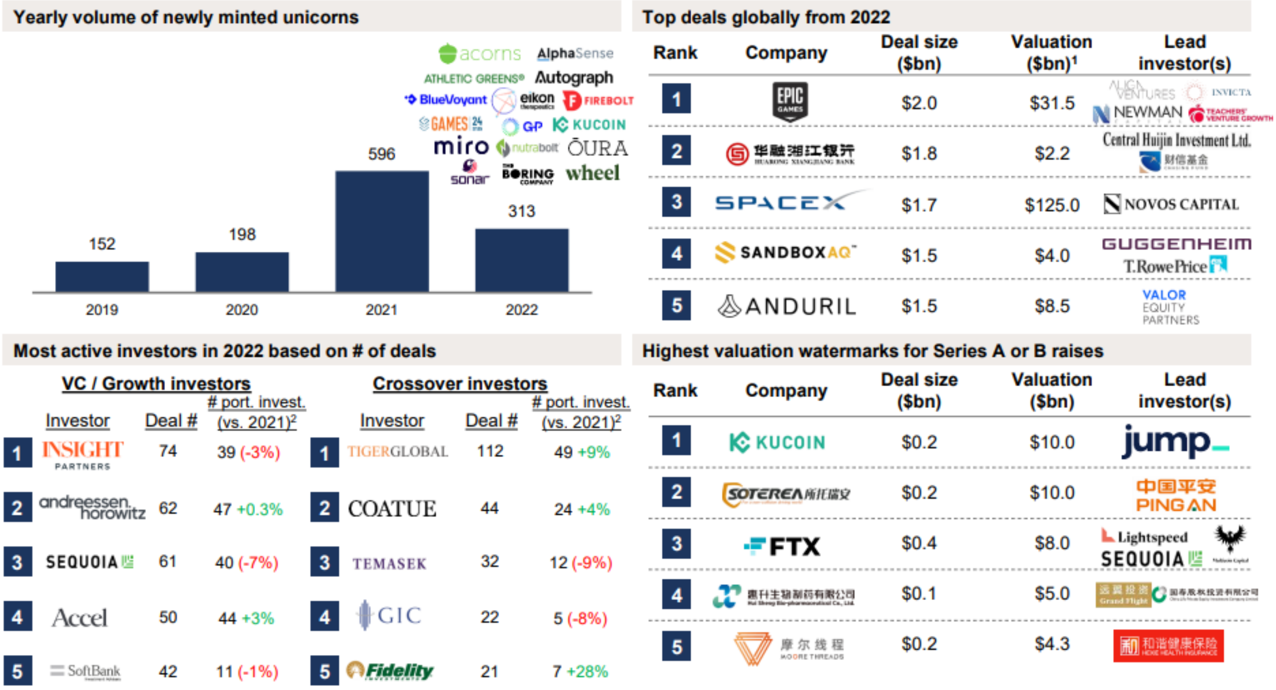
Private valuations also compressed in 2022 mirroring the broader rerating seen across the public equity markets

Structured investments were more common in 2022, with unpriced rounds comprising 73% of all deals (vs. 65% in 2021 and 66% in 2020)

Source: *Pitchbook including all completed VC and growth equity deals >$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*
3. *Excludes unpriced rounds*



Top deals globally from 2022

Rank	Company	Deal size ($bn)	Valuation ($bn)[1]	Lead investor(s)
1	Epic Games	$2.0	$31.5	Align Ventures, Invicta, Newman, Teachers' Venture Growth
2	华融湘江银行	$1.8	$2.2	Central Huijin Investment Ltd., 财信基金
3	SpaceX	$1.7	$125.0	Novos Capital
4	SandboxAQ	$1.5	$4.0	Guggenheim, T.RowePrice
5	Anduril	$1.5	$8.5	Valor Equity Partners

Most active investors in 2022 based on # of deals

VC / Growth investors

	Investor	Deal #	# port. invest. (vs. 2021)[2]
1	Insight Partners	74	39 (-3%)
2	andreessen horowitz	62	47 +0.3%
3	Sequoia	61	40 (-7%)
4	Accel	50	44 +3%
5	SoftBank	42	11 (-1%)

Crossover investors

	Investor	Deal #	# port. invest. (vs. 2021)[2]
1	Tiger Global	112	49 +9%
2	Coatue	44	24 +4%
3	Temasek	32	12 (-9%)
4	GIC	22	5 (-8%)
5	Fidelity	21	7 +28%

Highest valuation watermarks for Series A or B raises

Rank	Company	Deal size ($bn)	Valuation ($bn)	Lead investor(s)
1	KuCoin	$0.2	$10.0	jump
2	Soterea 所托瑞安	$0.2	$10.0	中国平安 Ping An
3	FTX	$0.4	$8.0	Lightspeed, Sequoia
4	惠升生物制药有限公司	$0.1	$5.0	远翼投资 Grand Flight
5	摩尔线程 Moore Threads	$0.2	$4.3	和谐健康保险

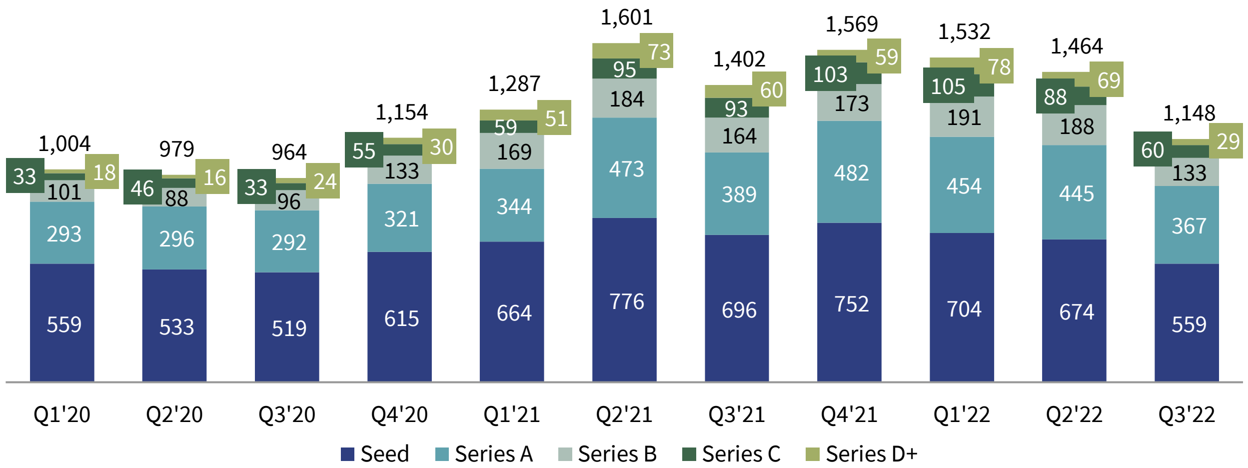
Source: *Pitchbook including all completed VC and growth equity with at least $250 million in pre-money equity value. CrunchBase. CB Insights*
Notes
Post-money valuation
Difference shown is delta between 2022 and 2021 proportion of deployment in existing portfolio companies relative to total investments

Commentary prepared by David Kleban, Jimmy Patrick and Joseph O - Rothschild and Co

In Europe venture round activity has been slowing: It seems clear in recent months that it is taking longer for rounds to close. With the criteria for what makes an attractive business having changed, there are examples of businesses with strong revenue performance finding it more challenging to secure a lead investor for their follow-on round.

According to Dealroom statistics in Europe in Q3 2022, 60 Series C (-35% yoy) and 29 Series D+ (- 52% yoy) were closed. In Q4 the number of Series C and D+ deals closed tracked at - 49% and -67% against Q4 2021.

Number of deal in Europe by investment stage



Source*: Dealroom*

IPO activity in Europe came to a virtual standstill in H2 2022. Later stage private companies typically looked to avoid crystallising a down round although some notable down rounds were concluded in 2022. These included:

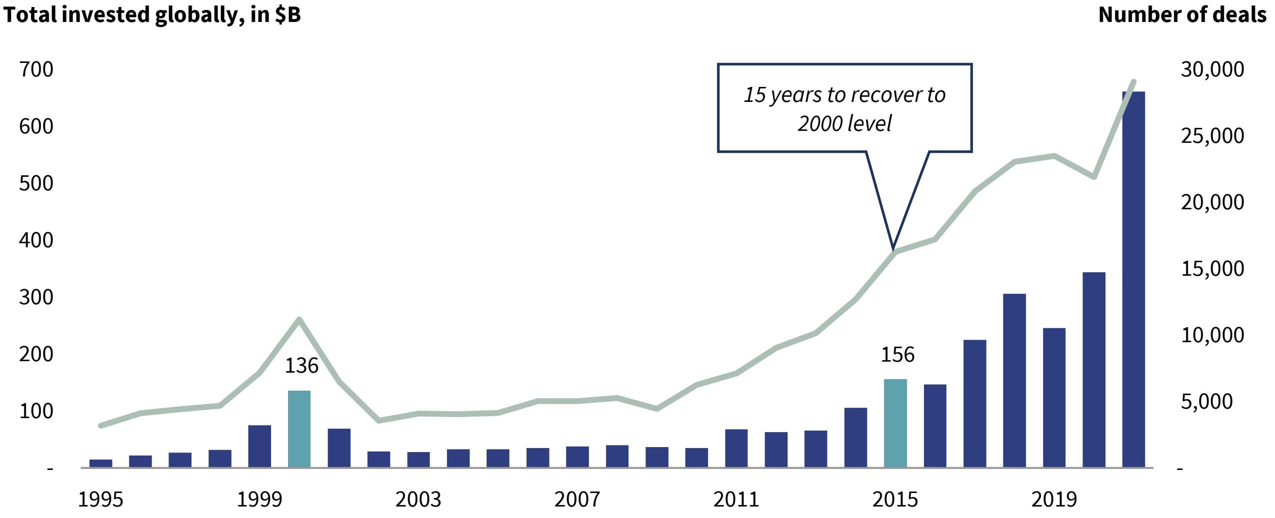
(i) In December the French AI-based data visualisation platform Dataiku raised a $200m Series F at a $3.7bn valuation . This was 20% lower than its August 2021 Series E when it raised $400m at a valuation of $4.6bn.

(ii) Also in December the Norwegian online grocery business Oda raised €150m at a post-money valuation of €350m, less than half its April 2021 valuation of €750m.

(iii) Klarna raised $800m in July 2022 at a $6.7bn valuation, down 85% from its peak June 2021 valuation of $46bn.

Elsewhere we have seen businesses raise money at valuations below their original targets. UK payments business SumUp raised €590m in June at an €8bn valuation having earlier been reported as looking for a €20bn valuation.

After the dotcom bubble of 2000 it took the venture capital market until 2015 to recover to 2000 levels of deal volume and value. The peak 2021 level may also take some time to regain although the greater infrastructure of venture capital investing, the supply of companies driven by the rapid advances in tech and the availability of dry powder should all form supports to the market.



***Source**: CB Insights*

At ground level – what it feels like

A heady 2021: One of the structural disadvantages faced by 2022 is the comparison to 2021 which was an extraordinary year by venture capital standards both in terms of the scale of funding of VC backed companies and the valuations achieved. 2021 set a high-water mark unlikely to be matched for some years. In retrospect the heady atmosphere appears to have led to some loosening of the disciplines of scrutiny of venture deals, companies and valuations. As Doug Leone of Sequoia puts it:

"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 s--t decision.. …. you got money; you made a good decision, you got money — which is a lousy way for you to learn your craft. All that is gone."

Change of emphasis in 2022: The change of mood was eventually dramatic in 2022. The early part of the year kicked off looking much like an extension of 2021 with some of the biggest VC raises of the year happening in January and February.

The mood shifted sharply after the Russian invasion of Ukraine at the end of February which fuelled inflationary fears, particularly in Europe. UK inflation, which started 2021 at 0.6% and 2022 at 5.4%, was 11.1% by October. Rising inflation, soaring energy costs, rising interest rates and geopolitical tension had the effect of sharply increasing the cost of capital, reducing valuations in the public market and valuation levels and risk appetite in the private markets.

At ground level this meant that investors became more cautious, fund-raising processes continued but at a much slower pace and the level of due diligence rose. In sum, it became harder to raise money.

A painful shift: Faced with a virtually shut IPO market, later stage businesses faced a problem, particularly those whose business model was cash hungry and predicated on the expectation that continued external fundraisings would be available to fund future growth. In the space of a couple of months the VC environment shifted to an emphasis on preserving cash and extending runway. Growth ambitions were put on the back burner. A plethora of leading venture capitalists came out with advice to the officers of their investee companies advising them to cut costs and preserve runway at all costs.

Tom Schmidt of Dragonfly observed:

"If you are in the process of raising, close your raise as quickly as possible and retain the talent you need in order to build through this downturn. If you've recently raised, now is the time to focus on what's important and cut the fat, both in product direction and in personnel."

Y Combinator's advice – which emphasised how quickly companies should look to act, was: "*Cut costs and extend your runway within the next 30 days. The safe move is to plan for the worst. Your goal should be to get to Default Alive [The status of being on trajectory to reach profitability before running out of money]..…..If you don't have runway to reach Default and your existing shareholders are willing to give you more money (even on the same terms as previous rounds),you should strongly consider taking the money."*

Companies responded: The response of Maju Kuruvilla, CEO of Bolt was typical "*…the leadership team and I have made the decision to secure our financial position, extend our runway, and reach profitability with the money we have already raised."*

The sideways round: While the year did not nearly match 2021, substantial fundraising continued to occur in 2022. The real slowdown kicked in from the end of July once the deals set in train in more benign conditions ran out. All of the top ten 2022 largest fundraisings in Europe, for instance, took place by the end of July.

In these trickier conditions fundraising appeared easier for seed and early- stage rounds. Investors in this part of the market were going in fresh and with a longer timescale before valuation would really be tested.

Later stage companies appear to have found conditions to be more difficult. There were a number of prominent down rounds with Klarna standing out. Elsewhere companies continued to raise but frequently on a smaller scale than originally planned. In many cases a 'full raise' was switched to an 'interim' raise – a smaller, often internal raise designed to extend runway and often accompanied by cost cutting.

The question of valuation: Even in such raises the issue of the potential gap between founder and investor expectations over valuation would arise. Founders who raised in late 2020 or 2021 frequently did so at heady valuation levels. With public markets trading drastically lower (50% plus in some tech and internet sectors) investors looked askance at supplying further funds at the same valuation levels, particularly given prospects for revenue growth had in the meantime deteriorated.

Companies and VCs found various types of compromise to satisfy founders anxious to avoid a public down round and investors also reluctant to mint a down valuation yet keen to hit a more realistic valuation level. In many cases the companies cut costs and kicked the fundraising can down the round. Deal sizes became smaller for those who went ahead. The proportion of *'unpriced'* rounds went up from 66% in 2020 and 65% in 2021 to 73% in 2022. Some went for an extension to a previous round at the 'same' valuation but with incremental rights and safeguards written into the deal for the VCs. Glen Kernick of Kroll was quoted on this in the FT "*Investors are saying we will buy at the same price but we want seniority and to be at the top of the stack in case of liquidity*."

As the year went on companies and VCs looked for a solution. Earlier expectations that the IPO market might revive in H2 2022 were dashed. As mid-year approached there came the realisation that H2 2022 was also unlikely to see the IPO window open. At the end of 2022 the expectation of an IPO revival was again being pushed back, this time to H2 2023 and for high growth tech companies even into 2024. One response to this has been the concept of the *'small raise/big raise'* combination. This takes the form of a small raise (say $20m-$40m) in the near term typically led by existing investors and designed to extend runway while avoiding a big valuation reset. The intention is then to follow up with a much bigger raise within 12 months (say $200m-$300m) once markets improve and conditions allow.

A 2023 reckoning? All this implies that there may be a reckoning in 2023. Not all companies will be able to defer fundraising indefinitely. For some the absence of funds will hit the ability to grow at the anticipated pace. For others it could be more fundamental. For those obliged to raise founders may need to accept that earlier valuation levels are not presently repeatable and adjust expectations accordingly. The ability to stretch runway may reach a crunch point with these companies forced to raise at seemingly unfavourable terms, if indeed they can do so at all. Quoted in the FT Ravi Viswanathan, founder of New View Capital observes: "*2023 is when it all comes home to roost. There will come a point where even companies with 18 to 24 months' capital have to raise. There is going to be a lot of pain."*

Casting around: 2022 saw alternative funding solutions came back into fashion, most notably venture debt. The second half of the year saw combined equity and debt deals, and raising venture debt as an alternative to equity, become much more common. A series of preferred alternative structures have emerged (bridge loans, structured equity, convertibles, participating bonds and liquidation preference) that favour investors. Convertibles – which are effective debt transferable at a future date into equity, often on dilutive terms, became more prominent. The largest VC raise in Europe in 2022 was a $1.1bn convertible note by the Swedish sustainable lithium-ion battery maker Northvolt to finance its expansion of battery cell and cathode material production in Europe. This round came a year after the company announced $2.75bn in equity funding at a valuation of $11.75bn, the largest European raise of 2021.

Commenting on the ability of convertibles to postpone tough valuation decisions Chris Evdaimon, a private companies investor at Baillie Gifford comments that convertibles "*kick the can down the road-they are mostly being led by existing investors who are saying we also don't want to get into this unpleasant valuation discussion right now."*

So, what happens in 2023?

"Prediction is very difficult, especially if it's about the future."

Danish philosopher and Physics Nobel Laureate Niels Bohr

He also commented that "*An expert is a person who has made all the mistakes, which can be made, in a very narrow field."* Bearing these two aphorisms in mind here are some thoughts for 2023

1. Public company earnings are likely to go lower: One of the features of 2022 was that, while public markets fell, company earnings forecasts remained remarkably robust, dropping by less than 5%. Early reports from the full year trading statements made thus far amongst retailers and others suggest that Q4 trading remained relatively solid. Typically, companies won't guide a downturn until they are seeing its effects and thus their guidance is often a lagging rather than forward indicator. We know that a (mild) recession is on the way in Europe and recession may only be narrowly avoided in the US. There will be a fall out for earnings at some stage.

2. Markets though typically don't go down for ever: The S&P 500 dropped 20% in 2022. NASDAQ fell by 33%. It is unusual to see markets push consistently downwards and this has already been a long duration bear market. Indeed, since mid-June 2022 NASDAQ is flat, the S&P is up 6% and the EuroStoxx 50 is up 18%.

3. IPO markets will resume – safety first: The overall market has traded sideways for six months. Shares are down but earnings forecasts are optimistically high, meaning multiples are depressed. Investors need to think they will make money in IPOs. The hiatus in IPO activity has left a plethora of candidates waiting in the wings. It seems likely that the US and European IPO markets, already partially open (Porsche, Mobileye etc), will see activity strengthen. In this environment there will be a 'safety first' approach with well-established, recurring revenue, profitable businesses likely to take to the stage first. It may mean that a revival of higher growth, higher risk tech- style IPOs may have to wait until 2024.

4. Private markets – a valuation reset: It didn't really happen in 2022. Indices developed by PitchBook and Morningstar indicate the one year performance of the recently IPOed VC- backed, PE backed and DeSPACed public companies at -41% to -66%. Its index of still private Global Unicorns by contrast is down just 2.9% and that of US Unicorns is up 1.2% in the same period. Deteriorating economic conditions may mean start-ups miss their revenue targets, enough on its own to reassess a private company's value. In combination with a fall in external valuation metrics it could lead to a substantial reassessment of private company valuations. Most private companies have not been marked to market in the style of their public company counterparts in 2022. 2023 is likely to see a lot more of this.

5. And more down rounds: And not all of this will be performed in non-priced rounds and internal rounds. There is likely to be a growing number of down rounds in 2023. As the number of down rounds increase, and as investors/founders perceive the value of having been able to raise at all, the perceived opprobrium of a down round should reduce.

6. More due diligence – slower fund raising: After the heady accelerated pace of 2021, a more sober and sedate pace of VC fundraising seems likely in 2023. The shadow of FTX will stretch over the sector. There will be substantial due diligence on new raises. Sequoia is suggesting that it will have the accounts of even early stage start ups audited by one of the big four major accounting firms. It will make the pace of fundraising for VC backed companies slower.

7.Mergers and consolidation to pick up: Given the potential difficulties of fund raising in some sectors, particularly those which are fast growth, loss making and cash hungry, M&A is likely to pick up substantially. As an example, we saw in the instant grocery delivery sector the purchase of Gorillas by Getir in December 2022. The deal valued Gorillas at c$1.2bn, down from the $3bn post money valuation it achieved in October 2021. The combined Getir-Gorillas was valued at $10bn implying a standalone Getir valuation at $8.8bn, itself a drop of 25% from the March 2022 level.

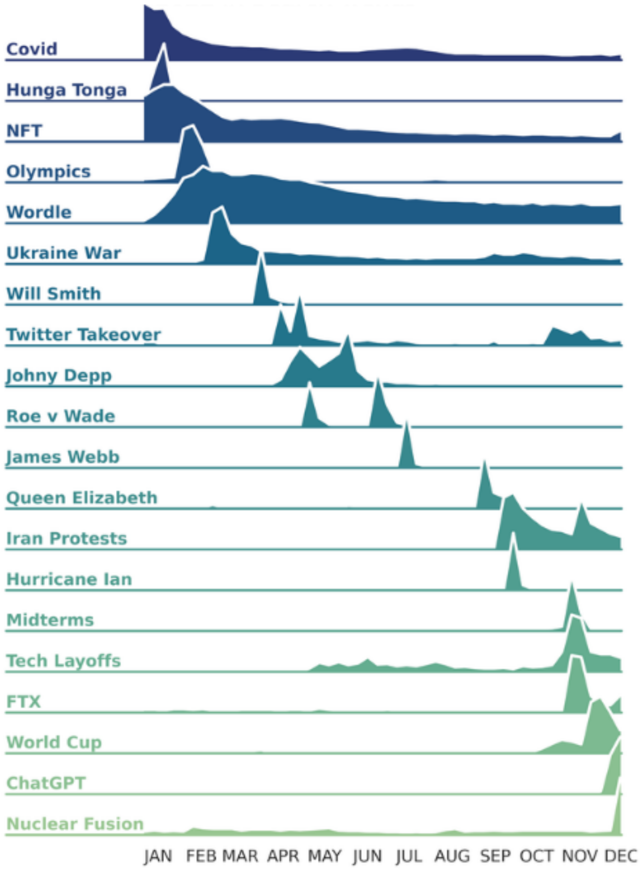
It's an example of how exit via M&A is likely to be accelerated by more rational valuations and the demands of cash hungry businesses who may be finding it difficult to raise further VC funding.

8. Fewer unicorns: The more cautious funding environment and the generally lower level of aspirational valuation means it is likely that fewer new unicorns will be created in 2023 than were in the years 2020-22. The redressment of valuations also implies that many existing unicorns may be downgraded to a sub $1bn status during 2023. Around a quarter of the c1200 active unicorns have a valuation of less than $1.2bn.

9. Debt as well as equity: We are already seeing it and it will likely continue. Despite increasing interest rates and thus its higher cost (and despite the requirement, unlike with equity, to pay it back), venture debt is likely to play a more prominent role in venture fund raising in 2023. Specialist lending (ARR, IP based) will play a bigger role.

10. Growing optimism about 2024? Remember these? These are the most searched for Google terms during 2022. How fleeting life's preoccupations can be. The present focus on inflation, the pace of Fed interest rate rises, impending recession, earnings cuts and geopolitical risk may change very rapidly in 2023. By the end of 2023 we may be looking at inflation on a sharply downwards path, we may have seen the peak in interest rates (although probably not a fall), the base of earnings may be lower, but the market may be anticipating upgrades as a mild recession shifts towards accelerating GDP growth in 2024. And it may be anticipating a re-established IPO market, a renewed confidence in tech and a more buoyant private funding environment. Remember "*In the short run the market is a voting machine but in the long run it is a weighing machine"(*Benjamin Graham).

2022 in Search Trends



Data source: Google Trends I *github.com/joweich/year-in-search-trends* I *Keywords preselected and normalized www. google.com/trends*

Where European VC funding went in 2022

Using numbers sourced from Pitchbook this is the ranking of countries by VC funds committed in 2022.

UK: €25.2bn: The UK attracted the largest amount of investment of any European country in 2022 at €25.2bn, down 16% yoy. The biggest VC round was by payments company ***Checkout.com***, which raised $1bn in January at a $40bn valuation. The Financial Times recently reported that the company has cut its internal valuation to around $11bn. Other large deals included the $622m raised by ***SumUp,*** $377m by ***Bloom Financial Group*** and the $220m raised by ***Multiverse*** at a $1.4bn valuation and c52x 2021 revenue.

France €12.5bn: France saw an 18% increase in deal value to €12.5bn in 2022. January started the year strongly with $500m+ raises from fintech ***Qonto*** and from refurbished devices marketplace ***BackMarket***. Also in January there were two new unicorns, payroll software developer ***Payfit,*** which raised $289m, and ecommerce startup ***Ankorstore*** which raised $283m. Healthtech business ***Doctolib*** raised €500m in March. In May ***HR Path*** raised $250m and health insurance business ***Alan*** a $200m Series E. ESG ratings business ***Ecovadis*** had a $500m Series C in June. ***Contentsquare*** raised $400m in equity and $200m in debt in July. Vertical insect farm business ***Inovafeed*** raised $250m in September.

Germany €12.2bn: This fell 19% on 2021. Two of the biggest deals came from Celonis and Trade Republic. In August, data processing company ***Celonis*** raised $1bn ($400m equity, $600m debt) in a Series D round. In June investing app provider ***Trade Republic*** raised €250m in a Series C extension led by Ontario Teachers, adding to the $900m it raised in its 2021 Sequoia led Series C. Meanwhile fund raising in ***Austria*** was down 21% yoy at €878m.

Israel €8.8bn: Israel was down 20% yoy at €8.8bn. Notable deals included the $262m Series C by networking software provider ***DriveNets.***

Sweden €5.2bn: ***Sweden*** remained the Nordic's largest venture market although the amount raised was down 24% yoy. ***Klarna*** raised one of the country's largest VC rounds at $800m. ***Finland*** was down 5% yoy at €1.6bn, ***Norway*** was down 6% yoy at €1.3bn and ***Denmark*** down 42% at €1.2bn. ***Iceland*** was up 55% at €653m, mainly due to fintech ***SaltPay***'s $500m Series C.

Switzerland €3.8bn: This was an increase on the €3.6bn of 2021. The largest round was the $650m raised by carbon capture company ***Climeworks.***

Spain: €2.5bn: This was a 29% drop yoy in funds raised. Adtech ***SeedTag*** attracted a$250m investment from Advent in July. SAAS platform ***Factorial*** raised a $120m Series C in October.

Belgium €2bn was up 55% yoy to €2bn. Fintech ***Kpler*** raised $200m from Insight Partners in April.

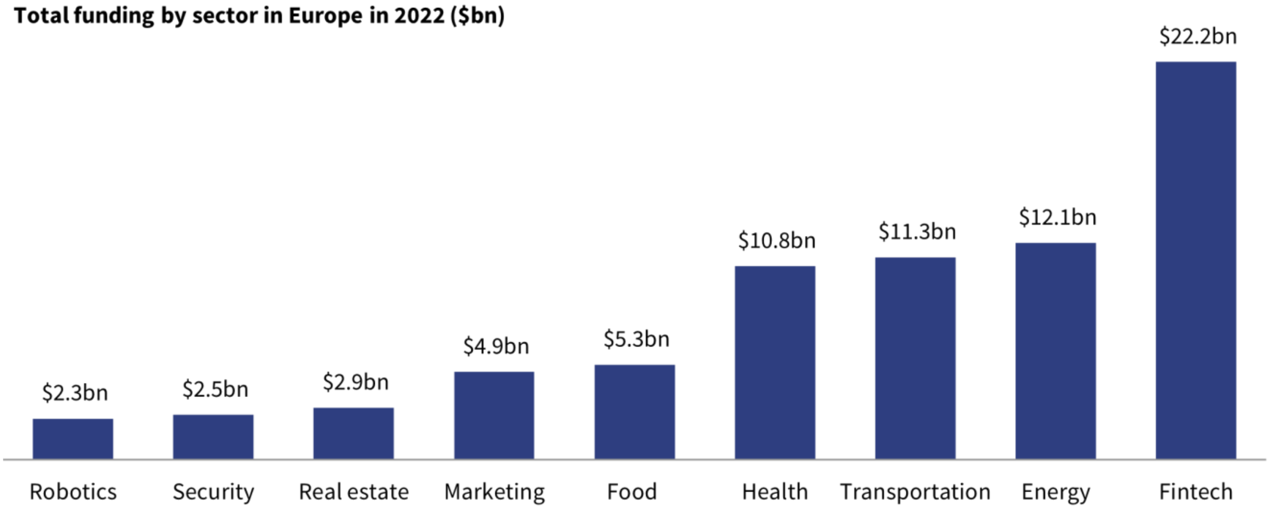
Italy €1.9bn saw a 63% rise yoy fuelled by two substantial deals in September, the $340m Series A by software business ***Bending Spoons*** and the $320m Series D by mobile payments company ***Satispay***.

Estonia was at €1.6bn, up 54% led by the $709m raise by mobility company ***Bolt*** in January.

Central and Eastern Europe: The ***Czech Republic*** saw a 550% increase in deal value to €475m. Notable deals included online supermarket ***Rohlik***'s €220m Series D. ***Lithuania*** which recorded a big increase in capital raised in 2021, saw the country's deal value drop 70% to €118m. Its largest round was a $65m Series A for payment infrastructure provider ***Kevin***. In ***Greece*** startups raised €360m in 2022, a near threefold increase from 2021 ***FlexCar*** raised €210m in debt and equity in May and ***Spotawheel*** had a €100m Series B in April. Total funding by sector in Europe in 2022 ($bn).

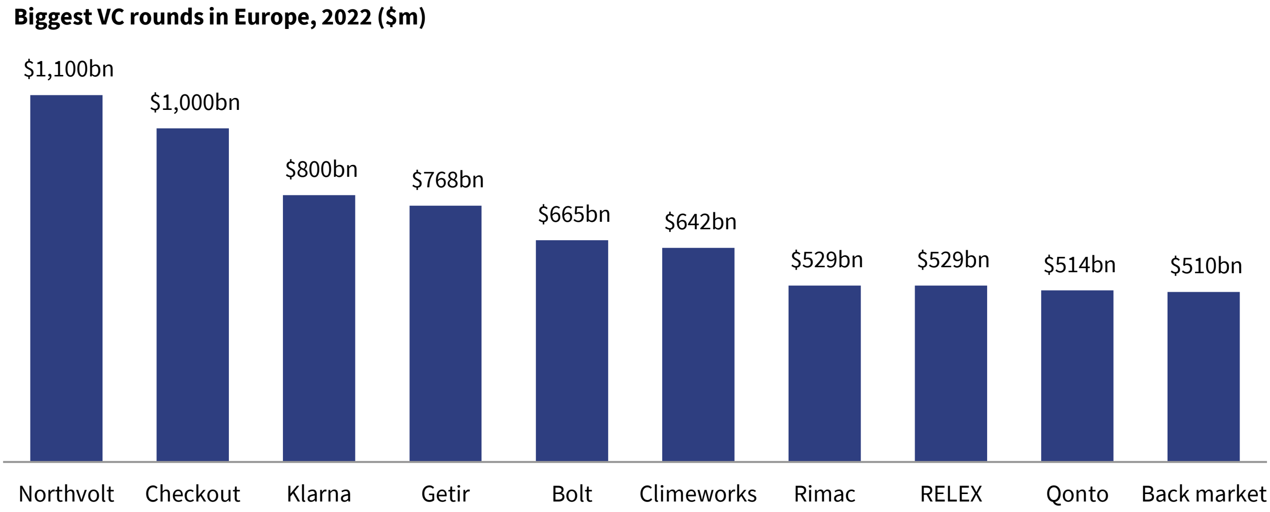
[Hot or not: Where European VC funding went in 2022 | PitchBook]()

Total funding by sector in Europe in 2022 ($bn)



Source: *Dealroom. Data collected December 19*

The biggest European funding rounds in 2022



Source*: Dealroom*

The top ten venture capital deals in Europe by size in 2022 were:

Northvolt - $1.1bn convertible note in July. The Swedish sustainable lithium-ion battery maker Northvolt signed a $1.1bn convertible note deal to finance its expansion of battery cell and cathode material production in Europe. Participating investors included AMF, AP funds 1-4, ATP, Ava Investors, Baillie Gifford, Compagnia di San Paolo through Fondaco Growth, Folksam Group, Goldman Sachs Asset Management, IMAS Foundation, Olympia Group, OMERS Capital Markets, PCS Holding, Swedbank Robur, TM Capital and Volkswagen Group. This $1.1bn round came a year after the company announced $2.75bn in equity funding at a valuation of $11.75bn, itself the largest European raise of 2021. Northvolt has in total raised c$8bn in equity and debt.

Checkout.com - $1bn Series D in January 2022: The UK digital payments processing company Checkout raised $1bn in January 2022 at a $40bn valuation. Investors included Tiger Global, Franklin Templeton and GIC. This followed its $450m Series C in January 2021 which valued the business at $15bn. Previous rounds were a $230m Series A (at a $2bn valuation) in May 2019 and a 2020 Series B of $150m at a value of $45.5bn. Checkout, according to management, has been profitable for some years. Nevertheless, in December 2022 Checkout reduced its internal valuation to c$11bn, a c70% cut to the value of its January 2022 round. In doing so the company reflected valuation activity in the public markets. The move also enabled it to lower the price at which staff can exercise their stock options from c$252 per share to c$65.

"We took advantage of the current conditions to update the tax valuation of the company. We decided to do that for our employees so that we can re-strike all the options that have been handed out recently and therefore create more upside potential for them — they will have to pay less for those options" Checkout.com founder and CEO Guillaume Pousaz.

Klarna – $800m Series E in July 2022: Swedish BNPL company Klarna announced an $800m fundraising in July valuing the business at around $6bn pre money and $6.7bn post money. Canada Pension Plan Investment Board (CPPIB) and the Abu Dhabi state investment fund Mubadala appeared as new investors. Existing Klarna backers including Sequoia Capital and Commonwealth Bank of Australia also participated. The round at $800m was bigger than the market had expected. There was a drop of 85% from the peak valuation of Klarna at $45.6bn set in June 2021.

The June 2021 round which raised $639m and valued Klarna at $45.6bn was though smaller than its two predecessor rounds in March 2021 and September 2020. These rounds raised $1bn and $650m at valuations of $31bn and $10.6bn respectively. Looking further back in 2019 Klarna raised $460m at a valuation of $5.5bn. In December 2011 the early backers of Klarna invested $155m at a valuation of just under c$1bn.

Getir - $768m Series E in March 2022: Turkish instant delivery company Getir raised its $768m Series E funding round in March 2022 valuing the company at $11.8bn. Mubadala led the round, with Abu Dhabi Growth Fund (ADG), Alpha Wave Global, Sequoia Capital and Tiger Global also participating. Getir was operating in 81 cities in Turkey with operation in another 48 cities in its other markets in the UK, Germany, France, Italy, Spain, Netherlands, Portugal and the US.

In December 2022 Getir bought rival Berlin based instant delivery company Gorillas valuing Gorillas at c$1.2bn, down from the $3bn post money valuation it achieved when raising almost $1bn in October 2021. As part of the deal Getir cut its own valuation. The combined Getir-Gorillas entity was valued at $10bn with Gorillas accounting for 12%, implying the standalone Getir valuation at $8.8bn, a drop of $3bn or 25% from the March 2022 level. Publicly traded food delivery companies meanwhile saw their valuations drop on average c60% in 2022.

Bolt- $709m Series F In January 2022: Bolt, the Estonian on demand ride hailing company raised €628m ($709m at then rates) in January 2022. The deal valued the company at €7.4bn ($8.4 bn). Reflecting the heady growth-oriented spirit of late 2021 / early 2022 its aim was to expand into new geographies and to develop new services such as the 15-minute grocery delivery option, Bolt Market. The round was led by Sequoia Capital and Fidelity Management and Research with Whale Rock, Owl Rock, D1, G Squared, Tekne and Ghisallo also participating.

The company had previously raised €600m at a valuation of over €4bn four months earlier in a Series E also led by Sequoia.

As reported by Sifted in December 2022 Bolt saw its valuation marked down by one Fidelity fund at the end of September by 46% from its valuation in March.

Climeworks - $650m Series F In April 2022: Swiss carbon removal technology Climeworks AG raised CHF600m ($650m) to scale up its technology to take carbon dioxide directly from the air. The company's Iceland plant can currently capture about 4,000 tons of CO2 each year with the fundraising designed to take that to the million-ton scale. The deal was led by Partners Group and GIC with participation also from Ballie Gifford, John Doerr, Carbon Removal Partners, M&G and Swiss Re. It was the largest investment ever into a carbon removal startup.

Rimac Group - $536m Series D in June 2022: Rimac Group, the Croatian EV supercar manufacturer raised €500m in a Series D led by SoftBank Vision Fund 2 and Goldman Sachs Asset Management with Porsche AG also investing to maintain its 20% stake in the business. The aim was to develop Rimac further into a global EV components supplier. The deal valued the company at €2bn ($2.2bn).

Relex Solutions $568m (€500m) funding round in February 2022: The Finnish supply chain automation and optimisation platform Relex Solutions raised €500m in a round led by Blackstone Growth.The deal valued the company at €5bn. The Relex Living software platform automates retail supply chains, helping grocers reduce food waste and meet consumer demand more efficiently.

Qonto $552m Series D in January 2022: French challenger bank Qonto raised a $552m Series D funding round (€486m) in January 2022. The deal valued the company at c$5bn (€4.4bn). Tiger Global and TCV led the deal. Alkeon, Eurazeo, KKR, Insight Partners and Exor Seeds also invested. The company has raised €622min total funding. In July it bought German SME banking company Penta for an undisclosed sum. Alexandre Prot, CEO at Qonto, says the firm has ambitions to be the *"finance solution of choice for one million European SMEs and freelancers by 2025"*.

BackMarket $510m Series E in January 2022: BackMarket, the French marketplace for refurbished electronics devices (mainly smartphones) raised $510m at a valuation of $5.7bn in January 2022.The round was led by Sprints Capital with existing investors also participating, including Eurazeo, Aglaé Ventures, General Atlantic and Generation Investment Management. Seven months before, in May 2021, Back Market raised a $335m Series D led by General Atlantic valuing the company at $3.2bn.

All of these top ten deals by size took place between January and July 2022. Thereafter the number of large-scale deals fell away sharply.

In July, including Klarna, the top 10 European VC deals were worth $2.78bn. In addition to Klarna there were three deals worth $400m – French AI business Contentsquare, German Insurtech wefox and the Italian Proptech business, Casavo. Between August and December 2022, the highest monthly amount raised in the top 10 monthly deals was c$1.74bn in September with a low at just over $1bn in October.

The table shows the largest European VC deals between August and December 2022. Typically, the amounts raised are much smaller than the biggest deals in the January-July period. The largest equity deal was the $400m raised for German/US process mining software business, Celonis – a deal that also included a $600m debt line and a valuation of $13bn. This is followed by the $340m Series A (it had previously been bootstrapped) for the Italian creator-centric mobile app company Bending Spoons in September. Italy also saw a $320m raise for mobile payments company Satispay in that month. Israeli cloud-native networking solutions business Drivenets raised $262m in August and Swedish cleantech steel manufacturer H2 Green Steel raised $260m in a Series B plus extension across September-October.

There was a greater prevalence of combined equity/debt deals in H2. As well as the Celonis deal Einride, the Swedish electric vehicle company, raised $200m of equity and $300m of debt in December. UK healthcare business Cera raised $320m in a c50/50 mixture of equity and debt in August.

Top 10 VC deals in Europe by value – August -December 2022

	Company	Country	Date	Stage	Amount $m	Sector	What it does
1	Celonis	Germany	Aug-22	Series D	400	Software	process mining software vendor
2	Bending Spoons	Italy	Sep-22	Series A	340	Software	creator-centric mobile apps used by over 90 million content creators
3	Satispay	Italy	Sep-22	Series D	320	Fintech	mobile payment company
4	DriveNets	Israel	Aug-22	Series C	262	Cloud software	cloud-native networking solutions,
5	H2 Green Steel	Sweden	Oct-22	Series B+	260	Clean tech	green hydrogen-powered steel factory
6	Innovafeed	France	Sep-22	Series D	250	Cell ag	vertical insect farm operator for animal nutrition
7	Zeplus	France	Sep-22	PE	240	Clean tech	EV charging services
8	Einride	Sweden	Dec-22	SeriesC /debt ($300m)	200	Electric Vehicles	autonomous and electric trucks
9	Dataiku	France	Dec-22	Series F	200	AI	tools to build, test and deploy AI and analytics applications
10	ABB Emobility	Switzerland	Nov-22	Pre IPO	192	CleanTech	Electric vehicle charging solutions

Source: Rothschild & Co

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

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 fell 55% in 2022.

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 2022 was much more substantial than the 33% 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 likely be a growing number of down rounds in 2023, 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 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

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:

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