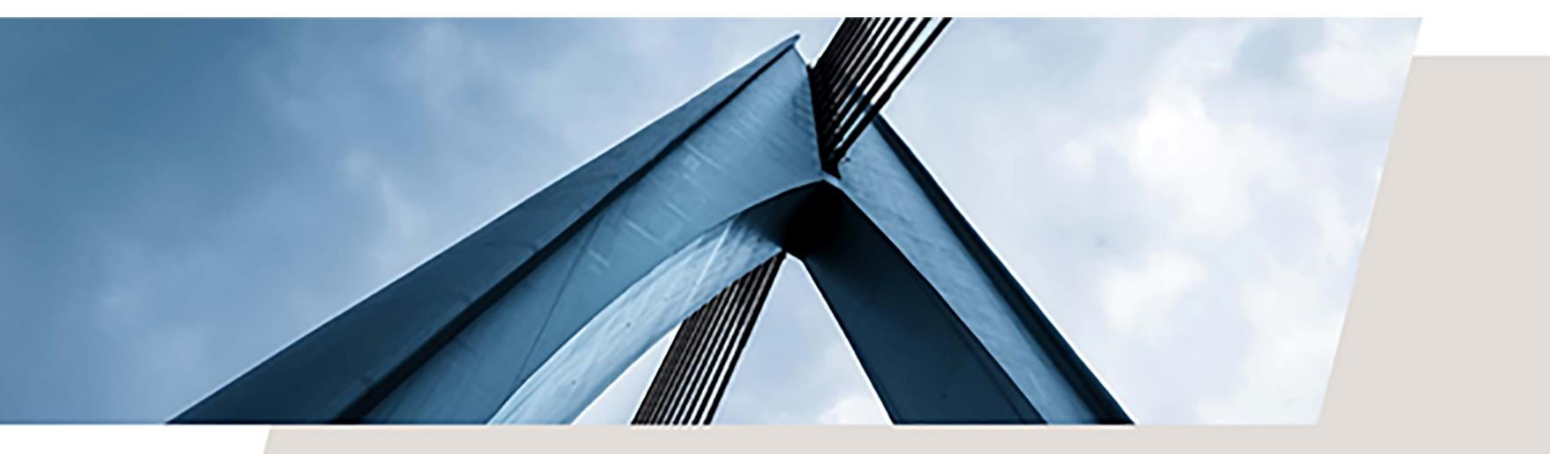


Growth Equity Update

April 2023 – Edition 13

- It’s almost a NASDAQ bull market. It may not feel like it, but NASDAQ is up 17% ytd in 2023 and up 19% from its recent low in mid-December
- Other indices, with a heavier weighting to banks, are less advanced but still in positive territory. The S&P 500 and the EUROSTOXX 600 are up 8%/9% ytd with the FTAllShare lagging, up 4% ytd. The Refinitiv Venture Capital Index, which seeks to monitor the real time performance of the VC industry is up 12% ytd
- The advance in markets has been driven by the combination of a more favourable outlook for global growth and positive indicators that global disinflationary impulses are increasing
- The recent banking sector events are viewed by economists as increasing the downside risks to growth but most appear to think that growth can survive and the effect may be a lower peak in interest rates. The next US Fed interest rate decision is on May 3
- Q1 2023 was a tough quarter for venture capital fundraising. Pitchbook data shows that global VC fundraising fell from $149bn in Q1 2022 to$48bn in Q1 2023, a yoy drop of 68%. It was also a sequential quarter drop of 13% versus Q4 2022
- According to the EY Global IPO Trends report, the total number of global IPOs was 299 in Q1 2023, an 8% fall yoy. More meaningfully the fall in total proceeds was dramatic at a decline of 61% to $21.5bn
- The collapse of Silicon Valley Bank came in mid-March. We look at the continuing potential impact of its demise on the venture capital industry
- We review the recent $6.5bn fundraising at Stripe and the role of restricted stock units in private companies.

Venture Capital: Q1 funding trends

A difficult quarter

68% yoy decline in global fundraising: Q1 2023 was a tough quarter for fundraising in the VC market. Pitchbook data shows that global VC fundraising fell from $149bn in Q1 2022 to $48bn in Q1 2023, a yoy drop of 68%. Looking at this in context, Q1 2022 represents a tough comp. The VC industry saw an annus mirabilis of fundraising in 2021, peaking in Q4. The momentum of the heady conditions of 2021 rolled on into 2022. The war in Ukraine, rising inflation and interest rates slowed the fundraising but the momentum of deals underway and heavy fundraising in January and February meant that the slowdown was not really felt before Q2.

On a sequential quarter basis, the Q1 2023 drop depicted by Pitchbook is thus less steep. The $48bn raised in Q1 2023 compares with the $55bn reported by Pitchbook in Q4 2022, a 13% drop. Q3 2022 had been at $65bn, meaning Q1 2023 is seen 26% down on Q3 2022.

It's worth noting that there are other commentators who track market activity, and the reported quarterly totals differ based on timing and the scope of deals deemed relevant to include. For completeness we compare the numbers.

CB Insights has Q1 2023 global venture funding down 61% yoy at $58.6bn with a 13% sequential quarter fall. The absolute numbers differ but the yoy and sequential quarter percentage slowdowns depicted are very similar to those of Pitchbook.

Crunchbase numbers are the outlier of the three and paint a faintly more positive picture, particularly in regard to the sequential quarter trend. According to Crunchbase, global venture capital funding in Q1 2023 was $75.7bn, down 53% yoy (Q1 2022 $162bn). Its sequential quarter numbers indicate an industry bumping along the bottom. Crunchbase's Q1 2023 fund raising figure of $75.7bn sees the industry 1% ahead of the $74.8bn of Q4 2022 and just 7% behind the $81.6bn of Q3 2022.

We focus on the Pitchbook numbers in our analysis with the Q1 trends outlined in the graphic. The collapse of Silicon Valley Bank came late in the quarter and any effects that this might have on appetite for deals is more likely to be seen in the next two quarters.

Deal volume by transactions in Q1 2023 fell -61% yoy, while the median deal size reached its lowest value over the last 12 months.

Valuations compressed in Q1 2023 as the private company 'discount' continued to widen.

Some of the high riding sectors of 2022 have fallen away in 2023, notably e-Commerce, blockchain and crypto. Replacing these as the in-vogue sector is AI with big raises in the quarter from Sandbox AO ($500m in February), Adept AI ($350m in March) and Anthropic ($300m in March) amongst others.

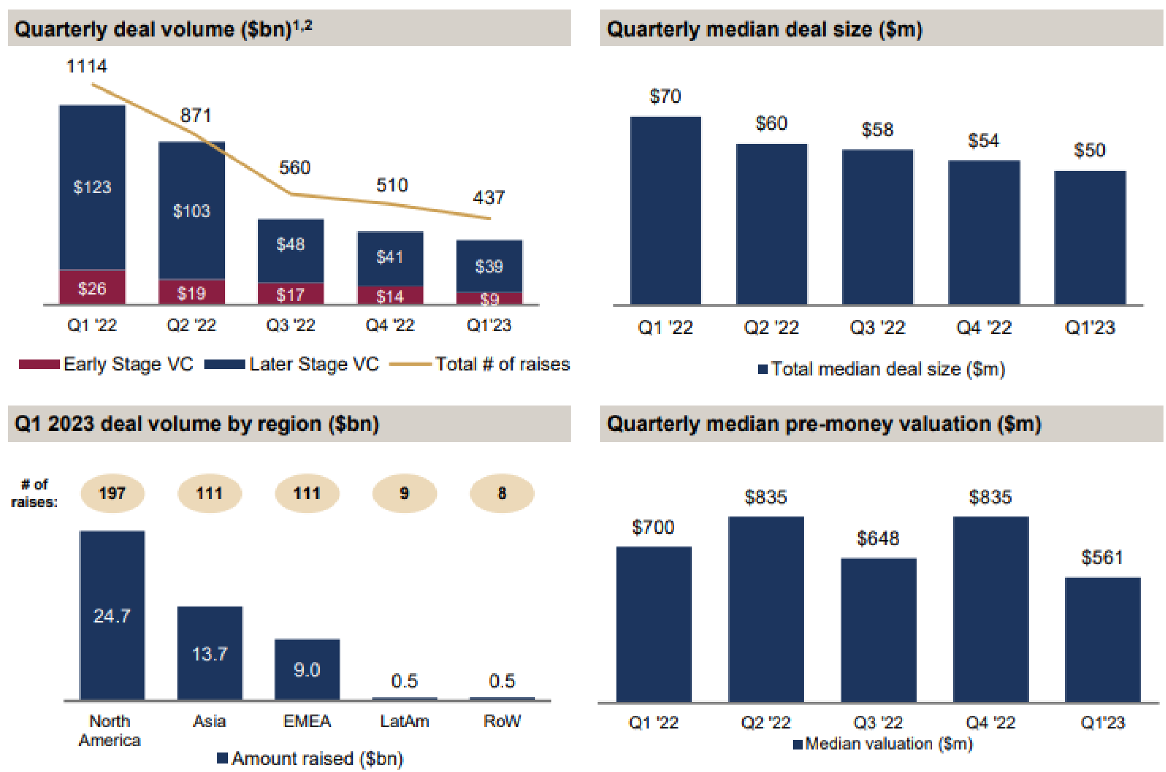
Just 18 unicorns created in Q1: Continuing the trend of recent quarters there were many fewer unicorns created in Q1 2023. Pitchbook records 18 companies hitting unicorn status in Q1. This was down from 153 in the equivalent 2022 quarter, an 88% yoy drop speaking to both the appetite for fundraising from both companies and investors and the sharp downwards shift in the multiples investors are typically willing to pay. As we have previously observed 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 at the end of 2022 had a valuation of less than $1.2bn. Many of these may fall below unicorn status in their next funding round.

Record levels of dry powder continue to sit on the side-lines, providing an opportunity for established companies to access capital. There is an estimated $350bn of VC dry powder globally. In addition there is an estimated $1.1 trillion of PE dry powder.

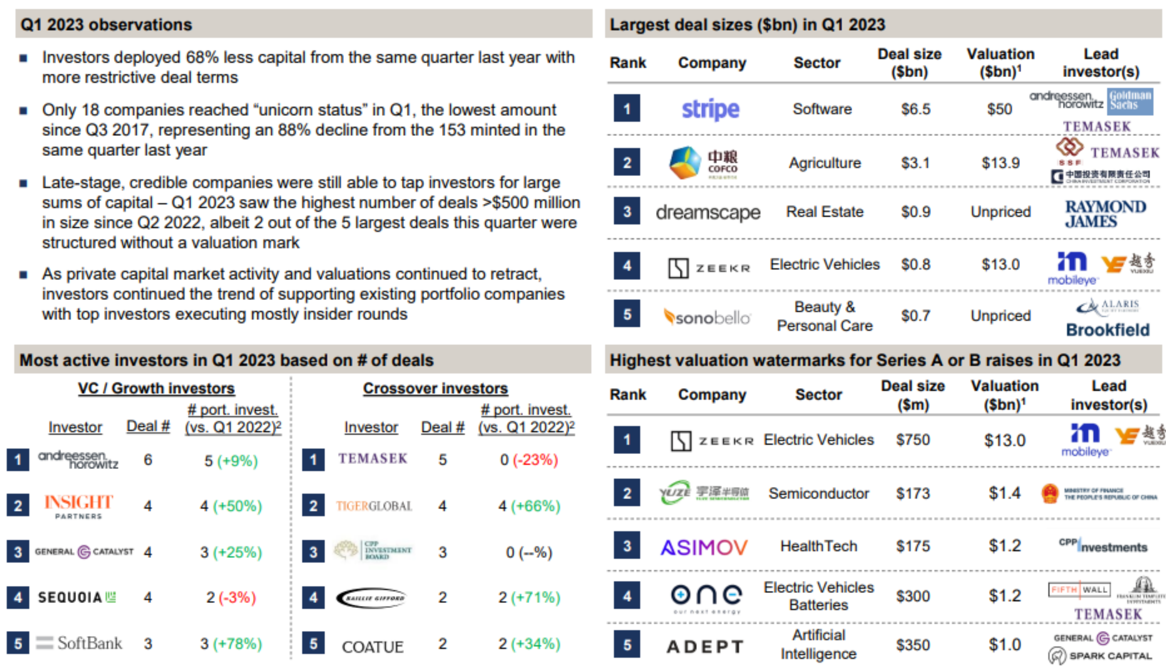
As a result late-stage, credible companies are still able to tap investors for large sums of capital. Q1 2023 saw the highest number of $500m plus deals since Q2 2022. Q1 2023 was characterised by two very large deals –a $10bn investment in OpenAI by Microsoft and a $6.5bn round for payments business Stripe.

As private capital market activity and valuations continued to retract, investors continued the trend of supporting existing portfolio companies with top investors executing mostly insider rounds.

Q1 2023 Global Venture Capital trends - *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



Q1 2023 observations

- Investors deployed 68% less capital from the same quarter last year with more restrictive deal terms
- Only 18 companies reached "unicorn status" in Q1, the lowest amount since Q3 2017, representing an 88% decline from the 153 minted in the same quarter last year
- Late-stage, credible companies were still able to tap investors for large sums of capital – Q1 2023 saw the highest number of deals >$500 million in size since Q2 2022, albeit 2 out of the 5 largest deals this quarter were structured without a valuation mark
- As private capital market activity and valuations continued to retract, investors continued the trend of supporting existing portfolio companies with top investors executing mostly insider rounds

Largest deal sizes ($bn) in Q1 2023

Rank	Company	Sector	Deal size ($bn)	Valuation ($bn)[1]	Lead investor(s)
1	stripe	Software	$6.5	$50	andreessen horowitz, Goldman Sachs, TEMASEK
2	中粮 COFCO	Agriculture	$3.1	$13.9	SSF, TEMASEK, 中国投资有限责任公司
3	dreamscape	Real Estate	$0.9	Unpriced	RAYMOND JAMES
4	ZEEKR	Electric Vehicles	$0.8	$13.0	mobileye, 越秀 YUEXIU
5	sonobello	Beauty & Personal Care	$0.7	Unpriced	ALARIS, Brookfield

Most active investors in Q1 2023 based on # of deals

	VC / Growth investors	Deal #	# port. invest. (vs. Q1 2022)[2]		Crossover investors	Deal #	# port. invest. (vs. Q1 2022)[2]
1	andreessen horowitz	6	5 (+9%)	1	TEMASEK	5	0 (-23%)
2	INSIGHT PARTNERS	4	4 (+50%)	2	TIGERGLOBAL	4	4 (+66%)
3	GENERAL CATALYST	4	3 (+25%)	3	CPP INVESTMENT BOARD	3	0 (--%)
4	SEQUOIA	4	2 (-3%)	4	BAILLIE GIFFORD	2	2 (+71%)
5	SoftBank	3	3 (+78%)	5	COATUE	2	2 (+34%)

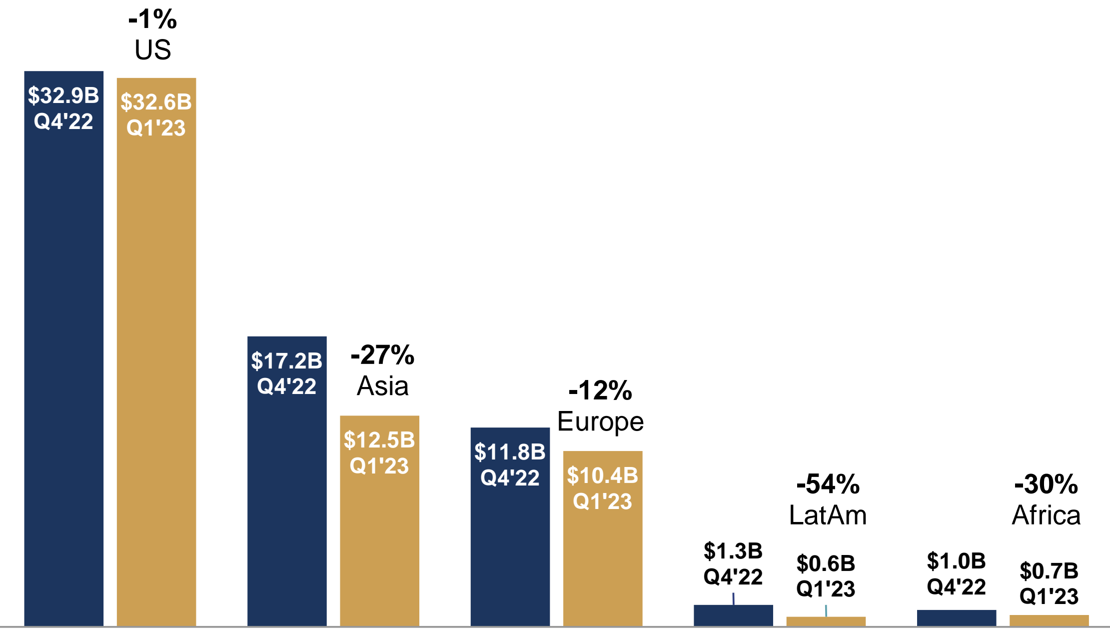
Highest valuation watermarks for Series A or B raises in Q1 2023

Rank	Company	Sector	Deal size ($m)	Valuation ($bn)[1]	Lead investor(s)
1	ZEEKR	Electric Vehicles	$750	$13.0	mobileye, 越秀 YUEXIU
2	YUZE 宇泽半导体	Semiconductor	$173	$1.4	Ministry of Finance The People's Republic of China
3	ASIMOV	HealthTech	$175	$1.2	CPP Investments
4	one	Electric Vehicles Batteries	$300	$1.2	FIFTH WALL, Franklin Templeton, TEMASEK
5	ADEPT	Artificial Intelligence	$350	$1.0	GENERAL CATALYST, SPARK CAPITAL

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

For regional trend data we switch to CB Insights. Its numbers suggest that in the US Q1 2023 fundraising was roughly flat against Q4 2022 . Elsewhere there were sharp fall with a 12% sequential quarterly value decline in Europe and a 27% sequential quarter decline in Asia.

Venture Capital Fundraising by region – Q1 2023 vs Q4 2022



Source: CB Insights

Dealroom reports that Q1 in Europe saw 2300 rounds closed which is the lowest number since Q3 2016. There was just one unicorn created in Europe in Q1, the German AI business in translation-as-a -service, Deep L. Just after the quarter end Quantexa, the AI based financial risk management business, raised a $129m Series E with a valuation of $1.8bn.

The next Exhibit looks at twenty of the top raises in Europe in Q1 2023. There were four deals of $200m or more with the two largest being for the eToro social trading platform at $250m and for photovoltaics leasing firm Enpal at $228m. There were a further thirteen deals worth c$100m or more.

According to Dealroom by industry Fintech led the way In Q1 with c$3bn raised (albeit this was down 88% yoy) with ClimateTech – a widely defined subsector- modestly behind at $2.6bn (-49% yoy) followed more distantly by software and biotech.

By country Dealroom reports that the UK with $4.1bn saw the most raised by value, albeit this was down 67% yoy France and Germany brought in $2.5bn (-56% yoy) and $2.1bn (- 42%).

Europe – Top 20 VC raises in Q1

Company	Sector	Date	Country	Stage	Raise $m	Activity
eToro	Fintech	Mar-23	UK	Funding	250	Social trading platform
Enpal	ClimateTech	Jan-23	Germany	Series D	228	Photovoltaics leasing firm
Travelport	Software	Mar-23	UK	PE Investment	200	Travel booking system
EV Chargers	Evs/Climate Tech	Mar-23	UK	Equity	200	Electric vehicle charging
Isar Aerospace	Satellite	Mar-23	Germany	Series C	165	Satellite launch service company
Oxbotica	AV Software	Jan-23	UK	Series C	140	B2B autonomous vehicle software
Amolyn Pharma	Biotech	Jan-23	France	Series C	138	Therapeutic peptides for rare endocrine diseases
Hemab Therapeutics	Biotech	Feb-23	Denmark	Series B	135	Prophylactic therapeutics for bleeding and thrombotic disorders,
APK	ClimateTech	Feb-23	Germany	Equity	130	Plastic recycling specialist
Merchant Money	Fintech	Feb-23	UK	Funding	115	SME business finance lender
Noema Pharma	Biotech	Mar-23	Switzerland	Series B	112	Central nervous system disorders.
Gropyus	Construction	Jan-23	Austria	Series B	107	Prefabricated house builder
Pasqal	Quantum Computing	Jan-23	France	Series B	107	Quantum Computing
IntegrityNext	Software	Mar-23	Germany	Software	106	"ESG" Certification software solutions
Ledger	Fintech/blockchain	Mar-23	France	Series C +	100	Global platform for digital assets and Web3
Deep L	AI	Jan-23	Germany	Equity	100	Ai based translation as a service
Zopa	Fintech	Feb-23	UK	Equity	93	Digital first credit cards, loans,
Wallapop	Consumer	Jan-23	Spam	Series G +	87	Circular economy marketplace
EO Charging	ClimateTech	Feb-23	UK	Equity	80	EV charging for fleets
Chain Reaction	Semiconductors	Feb-23	Israel	Series C	70	Blockchain and privacy hardware

Source: Finsmes, TechCrunch, Rothschild & Co

Anecdotally March appears to have closed strongly for fundraising in Europe with c$1.5bn raised in the last 10 days of March including five deals of $100m plus and two of the largest deals of the quarter. April also appears

to have begun briskly. The timing may be seasonal (a rush to complete deals before Easter in early April) , coincidental or perhaps expresses a desire to get deals over the line post the demise of Silicon Valley Bank.

After the goldrush

Venture capital and the demise of Silicon Valley Bank

The world of venture capital is adjusting to life without an independent Silicon Valley Bank. The operation continues under its new owners, First Citizens Bank of North Carolina and HSBC of the UK, but few expect the freewheeling approach of SVB to be replicated under the new ownership.

Where's SVB now? A quick reminder of what happened to Silicon Valley Bank post its demise. SVB had approximately $191.4 billion in deposit liabilities as of December 31, 2022. The collapse of crypto focused Silvergate Bank was announced on March 8, 2023. By the end of the day on Thursday, March 9, one day later, $42bn in deposits had left SVB.

SVB in the US goes to First Citizens Bank: Silicon Valley Bank was closed by the California Department of Financial Protection and Innovation on Friday, March 10, 2023, and the FDIC (Federal Deposit Insurance Corporation) was appointed receiver. The FDIC immediately transferred all deposits—both insured and uninsured—and substantially all assets of the former SVB to a newly created, full-service FDIC-operated 'bridge bank'. The action was taken to protect all depositors of Silicon Valley Bank. Depositors and borrowers automatically became customers of Silicon Valley Bridge Bank and had customer service and access to their funds by ATM, debit cards, and writing checks in the same manner as before.

At the end of March, the FDIC announced that North Carolina-based First Citizens would buy Silicon Valley Bridge Bank. Customers of SVB automatically became customers of First Citizens.

As of March 10, 2023, SV Bridge Bank had approximately $167bn in total assets and about $119 billion in total deposits.

The transaction with First Citizens means that it acquired total assets of c$110bn with a $16.5bn discount. These consisted of $72bn in loans and $56.5bn in deposits. First-Citizens also acquired the bank's private wealth management business. Prior to the deal First Citizens had c$109bn in assets.

First Citizens commented that the *'acquired portfolio has a low loss history'* and that there is *'significant downside protection through credit loss sharing with FDIC and asset discount.'* Shares in First Citizens shares rose 22% on the day of the announcement.

There is a five year loss share agreement which stipulates that the FDIC will reimburse First Citizens for 50% of losses on commercial loans in excess of $5bn. Approximately $90bn in securities and other assets remained in the receivership for disposition by the FDIC .The FDIC has calculated that the cost to it of the salvage of SVB will be $20bn.

The FDIC observed that "*A significant number of the uninsured depositors at SVB and Signature Bank were small and medium-sized businesses."* Interestingly though the ten largest deposit accounts at SVB held a combined $13.3bn or $1.3bn each.

The ten largest deposit accounts at Silicon Valley Bank held a combined $13.3bn or $1.3bn each.

FDIC report

SVB entered the UK market in 2004. On the 9th March SVB UK held c£10bn of deposits. A day later that figure was down to £6.7bn. On March 10 the Bank of England announced its intention to place SVB UK into a Bank Insolvency Procedure. On March 11 Rothschild & Co was appointed by SVB UK to find an alternative solution before the start of trading on March 13th. At 7am on March 13th the sale of SVB UK to HSBC UK Bank was announced through the resolution process of the Bank of England. SVB's UK customer base was able to operate as normal. Customer deposits remained protected. SVB UK employees started to work as part of HSBC.

Noel Quinn, HSBC Group CEO said, "*This acquisition makes excellent strategic sense for our business in the UK. It strengthens our commercial banking franchise and enhances our ability to serve innovative and fast-growing firms, including in the technology and life-science sectors, in the UK and internationally."*

Is there a lasting impact?

The banks that have bought the assets of SVB both see ownership of the customer relationships as an asset, strengthening their position particularly in the technology and life sciences sectors.

At the same time there is a sense that the unique role and style adopted by SVB as an independent business will not be replicated by the new owners.

SVB played a significant role in the venture debt market. In 2023 prior to its demise it was responsible for c10% of all venture debt issued in the US and in its home state of California, about 60%.

At end December 2022 almost half of US venture backed technology and life sciences companies banked with SVB. The UK business had c3,000 clients.

"We finance funds, personal needs of VCs and company executives, and VC portfolio companies to drive value for investors."

Silicon Valley Bank website

For seed and Series A stage businesses SVB offered cash deposit solutions, payment options for suppliers, plastic and virtual cards for expense management and deposits. For venture funded businesses it offered Treasury services, venture debt and, for international companies, an infrastructure for US operations. For late stage and public companies SVB offered corporate finance capabilities supporting corporations with working capital needs, growth capital, acquisition financing solutions and syndicated facilities. It handled global payments and forex and offered leveraged tailored strategies to manage currency exposure and volatility.

The impact of SVB's demise

The collapse of SVB appears to have further shaken the confidence of the venture capital industry.

Disruptive: There is a wide sense that the unique role and style adopted by SVB as an independent business will not be replicated by the new owners.

Blow to confidence: There is a lot of commentary around the blow to confidence that the demise of SVB represents. The optics are indeed not good. It is a business with a 40 year plus presence in the venture capital industry. It became the second biggest bank failure in US history. The banking partner of half of the US venture backed technology and life sciences companies collapsed in less than two days.

The role of the bank has been picked up elsewhere. Its collapse though contributes to the sense already felt in the funding market that venture capital has gone through a period of excess in the era of low interest rates and cheap money and that the consequences of these excesses are now coming home to roost with a period of reset underway.

SVB and venture capital firms; The relationship between SVB and venture capital firms was on many levels. Notably SVB Capital, the venture capital arm of SVB had $9.5bn of assets under management across 20 funds and SMAs. *The Information* reports that SVB Capital had invested $230m in Sequoia funds, $170m at Andreessen Horowitz, and $145m at Ribbit Capital. It was also invested in twelve other firms - 83North, Accel, Bessemer Venture Partners, Engineering Capital, Felicis, Frazier Healthcare Partners, Greylock, Index Ventures, Kleiner Perkins, Redpoint, Spark Capital and Zetta Venture Capital. SVB Capital claimed that its investments give it access to 700 unicorns and 60 decacorns across its funds strategies.

"SVB Capital is one of our most value-added limited partners. Sequoia and I appreciate having them as an investor."

Doug Leone – Sequoia (Source: SVB website)

SVB – a key supplier of subscription lines to VC funds: By the time of its collapse SVB had a very significant business in subscription lines. At end 2022 it held over $41bn of these loans, up from just $1.7bn a decade earlier. This was just over half of its total loan book, meaning it was more significant than the c$15bn of direct lending to VC firms.

Private equity funds and VCs make investments using money borrowed under subscription lines using the capital commitments of their investors as collateral. By using these typically low cost loans to make investments and defer

calling on the capital of investors, PE and VC firms can shorten the time span of the use of investors' capital. This improves the IRR on the investment. Having a general pool of money available also means that the investor has ready liquidity rather than needing to make a specific capital call for each investment.

The provision of subscription lines was a significant but relatively low margin part of SVB's business. It appears to have been used as a lead-in product to gain access to VCs and companies in order establish relationships and to sell higher margin services.

The *FT* has reported that potential buyers of the SVB loan book observed that the yields on subscription lines fell well short of the typical returns demanded by big private credit groups, the borrowing costs offered being c1-2 percentage points cheaper than those of other providers. Typically these loans are not rated by major credit rating agencies. Other big banks have reportedly been scaling back their subscription line businesses given the low returns.

If the other major banks are more wary of using their capital in this way it will be interesting to see whether the demise of SVB leaves a gap in the market for this type of product – a factor with ramifications for the returns funds can generate in VC and private equity.

SVB played a significant role in the venture debt market. A specific area of operation for SVB was its role in the venture debt market. In 2023 prior to its demise, it was responsible for c10% of all venture debt issued in the US holding roughly $6.71 billion in venture loans, mostly to early stage technology and life sciences companies.

Venture debt, as we have observed in recent editions of this Growth Equity Update, has become increasingly popular as equity funding for VCs has become more difficult to obtain. The collapse of SVB may well therefore cause further disruption to start-ups short term efforts to raise funding.

Help though may be on the way. The characteristics of many of the companies to whom SVB lent money were attractive. SVB's collapse had little to do with the underlying health or quality of the start-ups to whom it extended loans or from whom it received deposits. First Citizens commented on its acquisition of SVB that the *'acquired portfolio has a low loss history.'* The collapse of SVB with its very significant market share in venture debt means that there is a market share opportunity for alternative providers of venture debt and we have seen a number of these stepping up to the plate to announce their intentions to expand in the area. The consequence is likely to be a greater number of suppliers, both banks and specialist credit managers.

We surveyed a number of venture debt providers in the aftermath of the collapse of Silicon Valley Bank. Three themes arose. There was agreement that the collapse of SVB would likely have a negative impact on the sector and the overall VC ecosystem. There was a feeling that a process of re-education of stakeholders and LPs around the asset class is needed.

Nevertheless other venture debt providers appear to regard the hole created by the collapse of SVB as an opportunity to increase their business – effectively to pick up market share. Many are stepping up to raise their level of activity in the sector and report inbound queries from SVB customers.

For companies, particularly those in the US, the difference is likely to be that the new providers are likely to have more power over pricing with the low cost market share leader out of the way. So, venture debt is likely to become more expensive, and dealing with lending providers is likely to be less convenient, than in the heyday of SVB.

Much of the commentary around the demise of SVB conflates its failure with the fall in global venture capital funding yoy. Of course, the slowdown in VC funding was one of the factors that contributed to the eventual demise of SVB. The obverse is not true. The change in the interest rate environment since Q1 2022 has been the key factor in the slowdown of VC activity . If SVB itself is to have an effect , it will be seen in Q2 2023 and beyond. Perversely funding trends appear to have been strong since SVB's collapse – maybe it has concentrated the mind….

Late-stage companies and restricted stock units

Stripe's latest fund raise highlights the potential impact of a sluggish IPO market on the issue of restricted stock units.

Dublin based fintech Stripe raised $6.5bn in a funding round in mid-March in a deal which has highlighted the potential issue of restricted stock units (RSUs) in late stage venture capital companies.

Some background. Stripe raised $600m in a Series H funding round in March 2021, a deal which valued the company at $95bn. It had previously been valued at $36bn in an April 2020 round.

It was known that the company had been steadily reducing its internal valuation in the last twelve months. External reports suggest that it reduced its valuation by 28% in June 2022 to $29 per share from $40. A smaller cut followed in October 2022 and then an 11% cut in January 2023 (source The Information) taking the valuation to $63bn.

The Series I carried out in mid-March 2023 was done close to this level. The $6.5bn raise valued the company at $50bn, 47% below its peak valuation of in March 2021. It is still a substantial raise at a substantial valuation. Indeed, demand was such that the size of the deal was increased during its marketing. Stripe is reported initially to have targeted a raise of c$4bn with this being increased due to demand from investors which included new names such as Singapore's GIC, Goldman Sachs Asset Management and Temasek as well as core existing investors Andreessen Horowitz, Baillie Gifford, Founders Fund, General Catalyst, MSD Partners, and Thrive Capital.

In its fundraising Stripe made it clear that it had no need for capital to run its business. Instead, the primary reason to raise capital was the need to address the Restricted Stock units (RSUs - share incentives) which Stripe has for some years built into the compensation packages of key employees.

Stripe cofounder and president, John Collinson commented in its press release:

"The funds raised will be used to provide liquidity to current and former employees and address employee withholding tax obligations related to equity awards, resulting in the retirement of Stripe shares that will offset the issuance of new shares to Series I investors. Stripe does not need this capital to run its business.

Over the last 12 years, current and former Stripes have helped build foundational economic infrastructure for millions of businesses around the world, and this transaction gives them the opportunity to access the value they've helped create."

Meanwhile Reuters reports the comment of a person close to the company that, while Stripe still plans eventually to proceed with an initial public offering, it is unlikely to take place in 2023.

It is this absence of an IPO that highlights the issue that Stripe and other firms like it which have been heavy users of restricted stock units are facing in the continued IPO drought. Despite some glimmerings of movement in the IPO market the window has remained virtually shut now for almost a year. This means that private companies, who might have anticipated dealing with the RSUs as part of an IPO are having to find a different solution.

These share incentives tend to have three features. RSUs typically have a finite life, usually around seven years. When triggered the RSUs have a value, and this creates a tax liability for the employee. To meet the tax bill, and to benefit from the triggering of the RSU, the employee needs to be able to sell the shares. Without an IPO this is difficult. The lack of a ready secondary market means that the issuing company has the choice of disadvantaging its key employees by cancelling the award, or buying back the stock itself or otherwise changing the conditions of the share award.

The route adopted by Stripe has been to raise further money from private investors to cover the cost of these options by offsetting the tax bill of employees of the RSUs or indeed by buying up the stock of those employees who wish to sell. According to Reuters about $3.5bn of the newly-raised capital will be used to cover the tax bill, with the rest being used to buy shares from employees, according to a person familiar with the matter.

Such an option may not be widely available to other companies in a similar position. Even for Stripe the decision is a tough one with the company obliged to raise money to address its RSU issue at almost 50% off peak levels.

Other companies may not have the capability or the desire to raise money in a similar style. The most obvious choice is simply to let the options expire. This though would be a substantial blow to employees. They would face seeing years of ostensible amassed value in their share options wiped out. This would have obvious implications for staff morale and retention in the cohort of staff who have been with the company longest.

An example of a company which has allowed employee RSUs to lapse is US geolocation company Foursquare. As reported in *The Information* its decision is said to have impacted over one hundred of its longest standing employees. Some of these had already swapped out -of the money share options for RSUs back in 2016. Their seven year lifespan now being up the decision has been taken to let the options lapse.

Further such decisions are likely to have to be made in many more companies at a similar stage of development if the IPO window remains closed.

"Privately held companies that are over $3bn to $5bn in value—a lot of them have this problem."

Cisco Palao-Ricketts, Partner at law firm Goodwin.

Quoted in Crunchbase, Elizabeth Webb a partner at Gunderson Dettmer's Silicon Valley office specialising in executive compensation practice comments:

"It's a problem that has plagued the industry for a while. With companies staying private longer, we will see more of it. We've seen more of it in the last several years."

Quoted in Pitchbook Scott Chou, co-founder of ESO Fund, a VC firm that provides financing solutions for employee stock options, comment that Stripe's action is a choice, not an obligation. "[*Stripe] is doing this out of the goodness of their hearts and the generosity of [current] investors."*

IPO activity still at a low ebb

IPO activity in the US and Europe remained very subdued in Q1 2023.

According to the EY Global IPO Trends report the total number of global IPOs in Q1 2023 was 299, an 8% fall yoy from 326 in Q1 2022. The fall in total proceeds was more dramatic at a decline of 61% to $21.5bn.

The bulk of IPOs in the period were in Asia which recorded 175 new listings , 58% of the quarterly total. All of the top ten global IPOs by valuation were of China-based companies. The Mainland China market accounted for more than 40% of all global IPO proceeds.

The Americas actually saw a yoy increase in the number of IPOs , up by 4 to 40 with proceeds up 9% to $2.6bn.

The EMEIA region (Europe, the Middle East and India) saw 84 IPOs down 19% yoy with proceeds down by 36% to $6.2bn. India as a region had the largest number of IPOs in EMEIA. Europe, after a promising start to the quarter, saw just 11 IPOs.

London had five issuers raising just £81m in Q1. The main market saw two IPOs, which raised a combined £63m, while the Alternative Investment Market (AIM) saw three, raising £18m. UK IPO proceeds were 80% lower than the equivalent period in 2022, and 99% lower than the record £5.7bn levels of Q1 2021.

Q1 2023 Global IPO activity

Global	**Q1 2023**	**Q1 2022**	**% change**
Number of IPOs	299	326	(8%)
Proceeds (US$b)	21.5	54.6	(61%)
Americas	Q1 2023	Q1 2022	% change
Number of IPOs	40	36	11%
Proceeds (US$b)	2.6	2.4	9%
Asia-Pacific	Q1 2023	Q1 2022	% change
Number of IPOs	175	186	(6%)
Proceeds (US$b)	12.7	42.7	(70%)
EMEIA	Q1 2023	Q1 2022	% change
Number of IPOs	84	104	(19%)
Proceeds (US$b)	6.2	9.5	(36%)s

Q1 2023 refers to the first quarter of 2023 and covers completed IPOs from 1 January to 21 March 2023, plus expected IPOs by 31 March 2023 (forecasted as of 21 March 2023). Q1 2022 refers to the first quarter of 2022 and covers completed IPOs from 1 January to 31 March 2022

Source: EY analysis, Dealogic

There remains a substantial backlog of companies who have indicated a desire to IPO. Typically these companies and their owners are in the process of medium range preparation awaiting a re-opening of the IPO window. There are a number of factors which will dictate when that window might re-open.

Markets have steadied and indeed have made progress ytd although volatility remains high and nervousness over the banking sector in the wake of SVB and Credit Suisse has been unhelpful. There is some sort of visibility on the likely peak of inflation and thus of interest rates. The perception is that inflation is in the process of being tamed, notably in the US and that the rate of interest rate increases should slow or stop, although debate on when a reversal downwards might begin still rages.

Recent IPO performance , even of those IPOs so far in 2023 have remained relatively disappointing. 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 supply of companies potentially able to IPO should not present a problem. Faced, however with an uncertain and deteriorating economic environment, it will be tough for IPO candidates in many cases to show resilient trading for 2022 and prospectively for 2023 and it may be tough for them confidently to offer medium term guidance. Finally , and particularly in the early stages of the re-opening of the IPO market, a factor may be the need to marry up the more conservative valuation approach of investors with the expectations of sponsors and founders. A valuation gap between the two is likely to exist.

We are in April already and most commentators have little expectation of the IPO market opening substantially before the end of 2023 with 2024 being realistically the more favoured timing for a meaningful revival.

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 continue to defer raises in 2023

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

(v) Investors observe that valuation expectations are often still 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 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. YTD in 2023 it is up 12% meaning the total fall since the start of 2022 is now 50%.

Our summary of the outlook is:

- The deterioration in the 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 in 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. This may now be prioritised to supporting existing rather than new investments
- 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, climate tech 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

There is the expectation of a crunch point , perhaps as early as H2 2023, when companies will need to raise again but where the environment for fundraising is still not receptive.

▪ The speed of the investment process has slowed considerably. The volume of new deals has reduced. The level of diligence on new deals has stepped 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 immediate pressure on valuation

▪ Funding for the VCs themselves remains strong which is a positive indicator into 2023

▪ The dislocation caused by the collapse of Silicon Valley Bank may further hamper conditions in the venture capital market

▪ 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 remained stubbornly resilient. 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 deals in Growth Equity and Private Capital

A selection of recent deals on which we have advised.

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 an 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

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