

APOCALYPSE NOW?

THE IMPACT OF RECESSION & PANDEMIC ON THE STARTUP FUNDING ECOSYSTEM

AUGUST 2020



Dr. Ronald Weissman

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BAND OF ANGELS

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ANGEL CAPITAL ASSOCIATION



RON WEISSMAN

- Board Member, Angel Capital Association
- Band of Angels, Berkeley Angel Network
- Investment focus: AI & Analytics, Digital Health
- VC at Apax Partners (17 years)
- 40+ boards as Chairman, Director or observer here and abroad
- Senior executive at NeXT (reporting to Steve Jobs)
- CMO, Turnaround of the Year (Verity, 1999)
- Mentored and/or invested in 60 companies
- Angel outreach: Australia, New Zealand, Canada, Hong Kong, Italy, Israel, Chile, Germany, Armenia, Republic of Georgia, US White House
- Frequent speaker on angel and venture capital investing trends



ANGEL CAPITAL ASSOCIATION

World's largest association of active accredited angel investors - www.angelcapitalassociation.org



14,000+ investors across North America

Mission: fuel the success of the accredited angel investor community through advocacy, education, data and connection building

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Data Analytics



Gold Standard Education

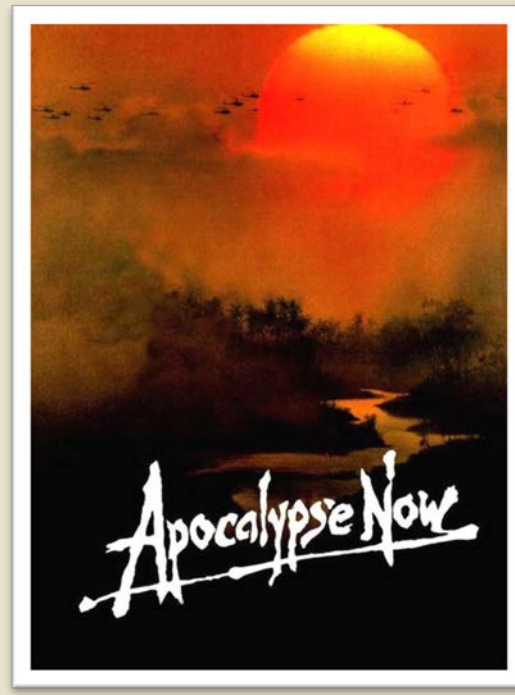
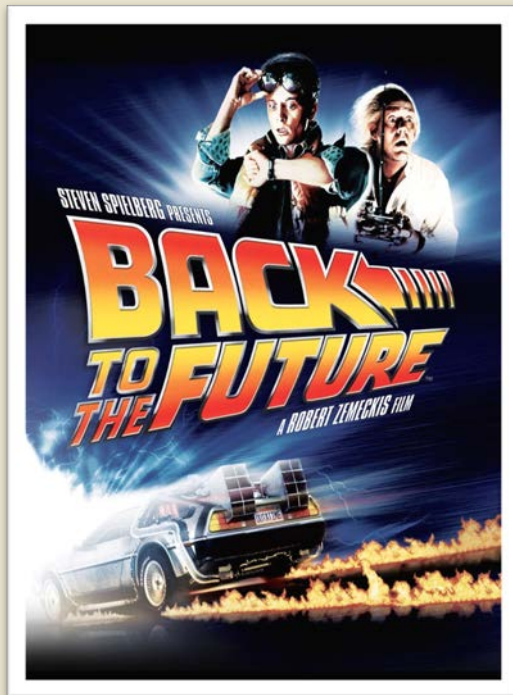


Advocacy in DC



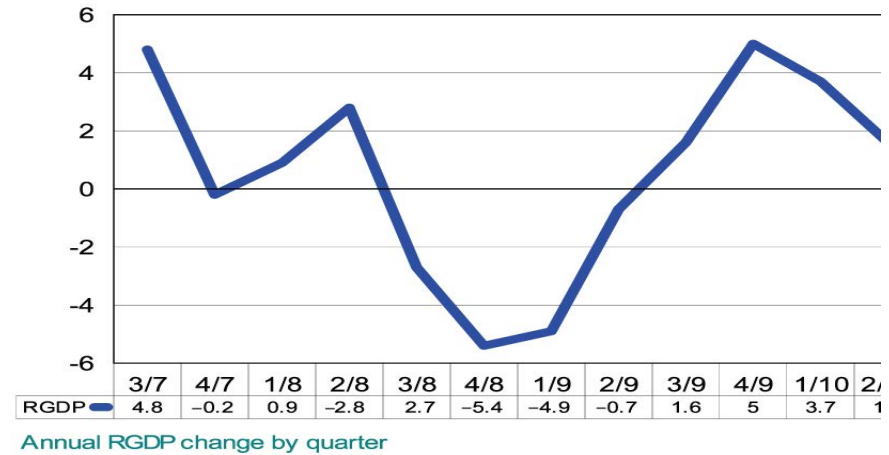
Syndication & Collaboration

AGENDA





Recession and Recovery 2007-2010

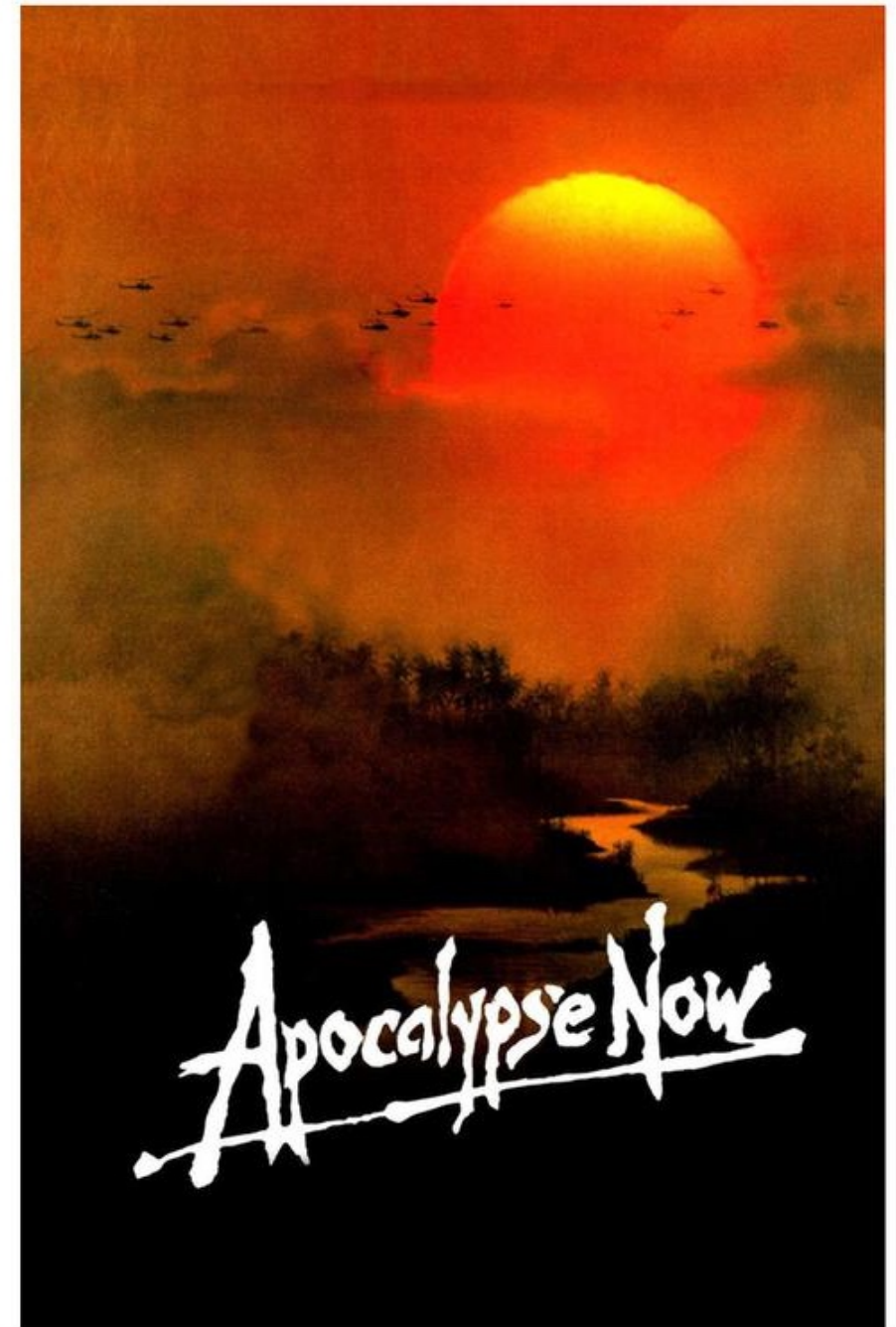


LESSONS OF THE GREAT RECESSION

EXPECTATIONS
FROM THE
GREAT
RECESSION
(2008 – 2011)

- VC Fundraising fell by more than 50%
- Decline in dollars but angel deal counts were up
 - Easier to get initial capital, harder to get follow-ons
- Angel, seed and early stage valuations fell by 25%
- Companies funded during the recession had fewer follow-on financings, more bankruptcies
- Ecosystem post-recovery remained weak
 - Fewer follow-ons, fewer exits, bankruptcies still 2x pre-crisis
- 6+ quarters to recover
- **The Great Recession set our expectations for the COVID crisis. But are those expectations accurate?**

Q1 2020:
THE PANDEMIC ARRIVES



Q1 SUMMARY

- IPOs at lowest point since 2010
- New VC funds move later stage, dramatic fall in seed and early stage funds < \$100M
- Startup Apocalypse as 41% have < 3 months of cash
- Angel and seed round funding falls 21%
- CVC deals down 13%, \$ down 25%
- 2/3 of angel groups expect to invest less in 2020
- Strong sector and regional differences (Midwest stronger than East or West coast)

Q2'20



THE FORECAST FOR Q2: MORE OF THE SAME

- Startup funding will continue to decline across all stages
- Deal sizes will shrink
- Valuations will continue to decline
- Deal terms will begin to favor investors
- Mass death of startups (Startup Genome)
- Early stage will be a less attractive asset class
- Sector performance and attractiveness will continue to vary widely based on COVID-related factors

**THE
NVCA:
CAPITAL
CRUNCH
COMING**

U.S. VC Lifecycle



Capital Crunch: What to Expect

Fundraising

Slowdown in capital raised by VC investors to deploy to companies

Emerging VC fund managers likely to feel capital crunch more than established VC firms

Industry to rely on and manage \$120 billion in dry powder

Investment

Pace of VC investing in startups to slow

VC investors to prioritize supporting existing portfolio companies, squeeze on capital for investing in new companies

Nontraditional investors pull back

Founders from historically underrepresented groups and those in emerging VC ecosystems across the country will face difficulty raising capital

Company Growth

US economy shut down in short-term

Concerns for COVID-19 second wave and more economic interruptions

Company growth against headwinds of global recession

Exit

Decline in exit activity to delay liquidity for VC investors and LPs

IPOs tied to public market health. Strategic acquirers assessing and rebounding from COVID-19, affecting M&A activity

VC investors will have to stretch their dry powder further to support companies staying private

Returns

Volume and value of exits to impact returns in short/medium term

Potential longer-term optimism on returns since previous downturns have generated some of the best returns

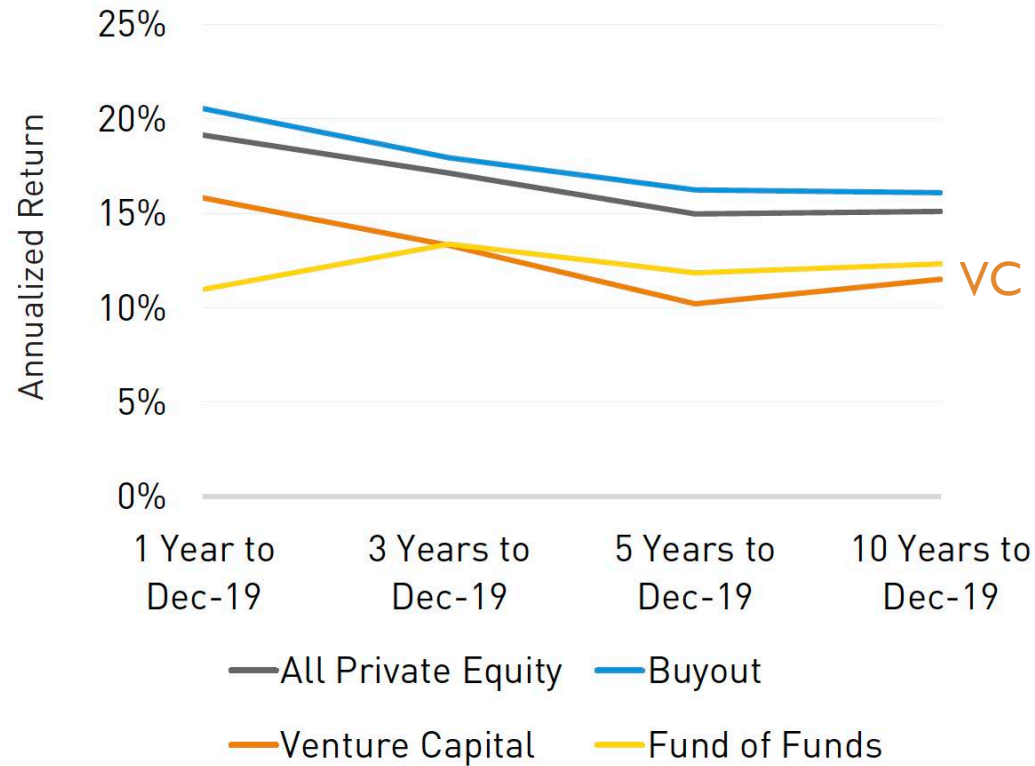
Re-investment

Capital crunch on re-investment results from slowdown of activity and pricing readjustments in other parts of the lifecycle

“Maryam Haque and Justin Field, “Startup Ecosystem Faces Capital Crunch over Coming Months,” National Venture Capital Assoc., April 27, 2020

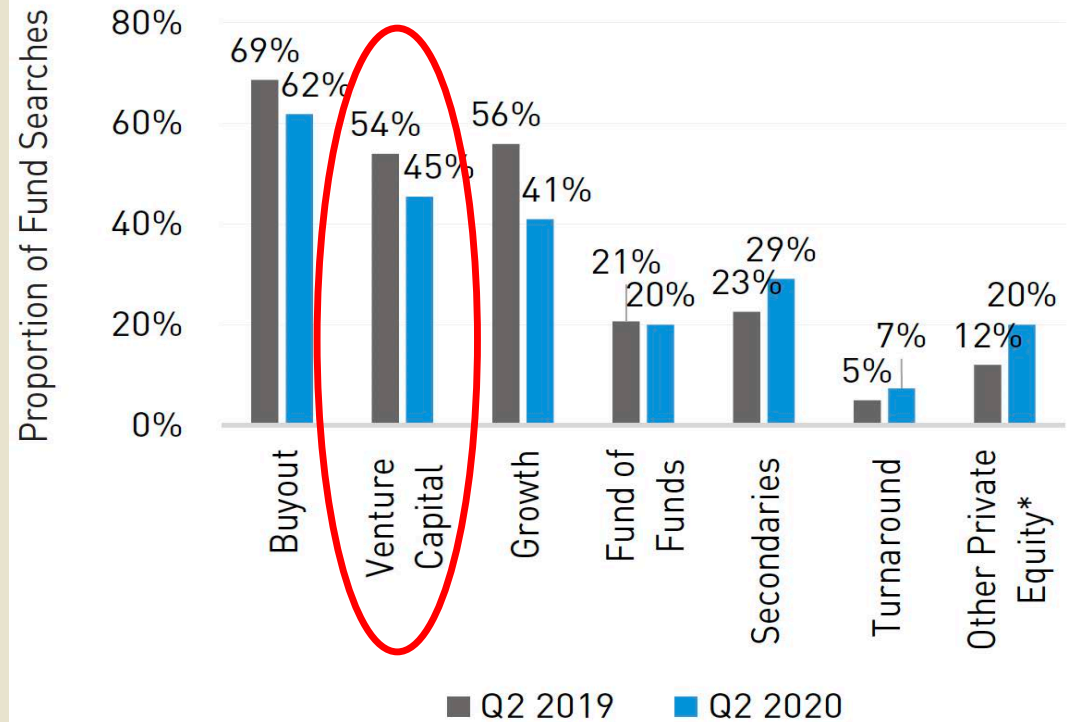
VC WEAK PERFORMANCE -- BECOMING LESS ATTRACTIVE TO LPS

Median IRR by Fund Type (VCs target = 20% to 30%)



Source: Preqin Pro

Fig. 8: Fund Types Targeted by Private Equity Investors over the Next 12 Months, Q2 2019 vs. Q2 2020



Source: Preqin Pro

Q2'19 TO Q2'20:

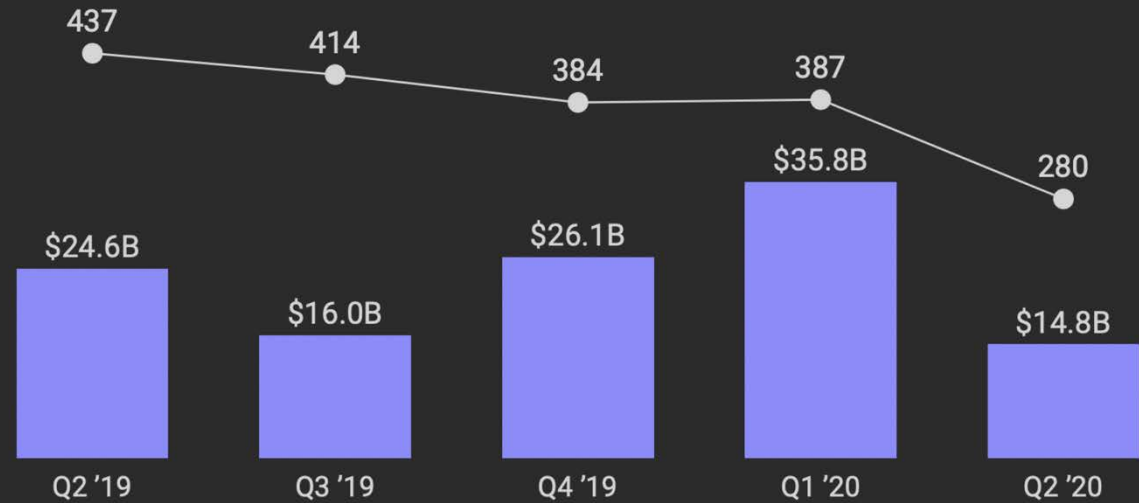
M&A \$ FELL 40%,
DEALS FELL 36%

Global Acquisitions Of Venture-Backed Companies

Excludes M&A for companies that previously went public

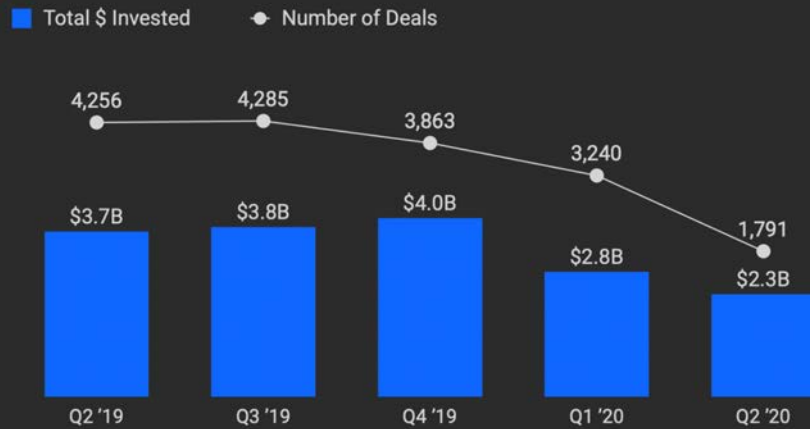
■ Total Exit \$ Volume

● Number of Deals



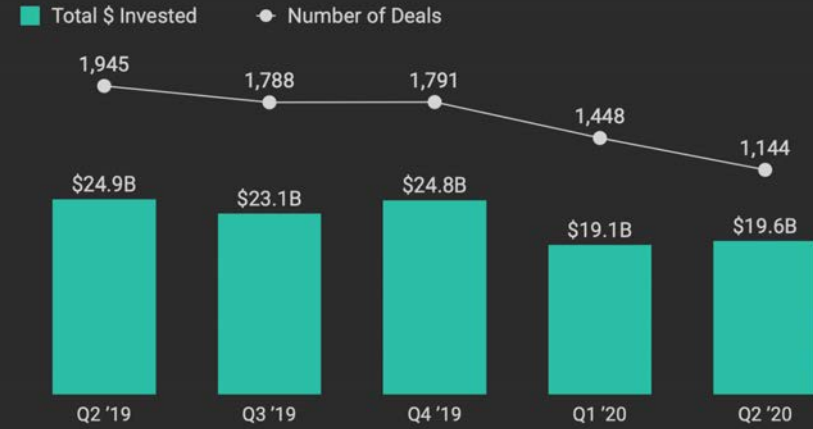
crunchbase news

Global Seed & Angel Investment Through Q2 2020



crunchbase news

Global Early-Stage Investment Through Q2 2020



crunchbase news

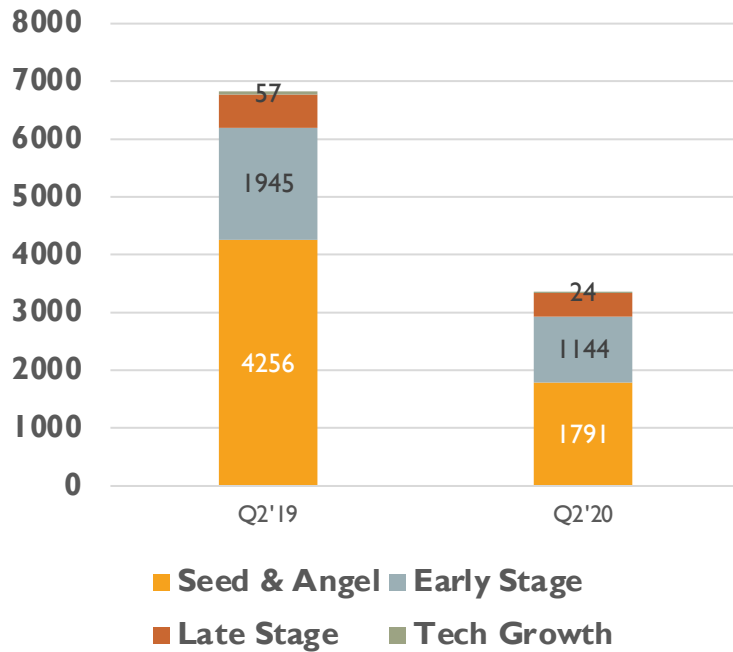
Q2'19 VS. Q2'20

ANGEL DEALS FELL 38%, \$ FELL 58%

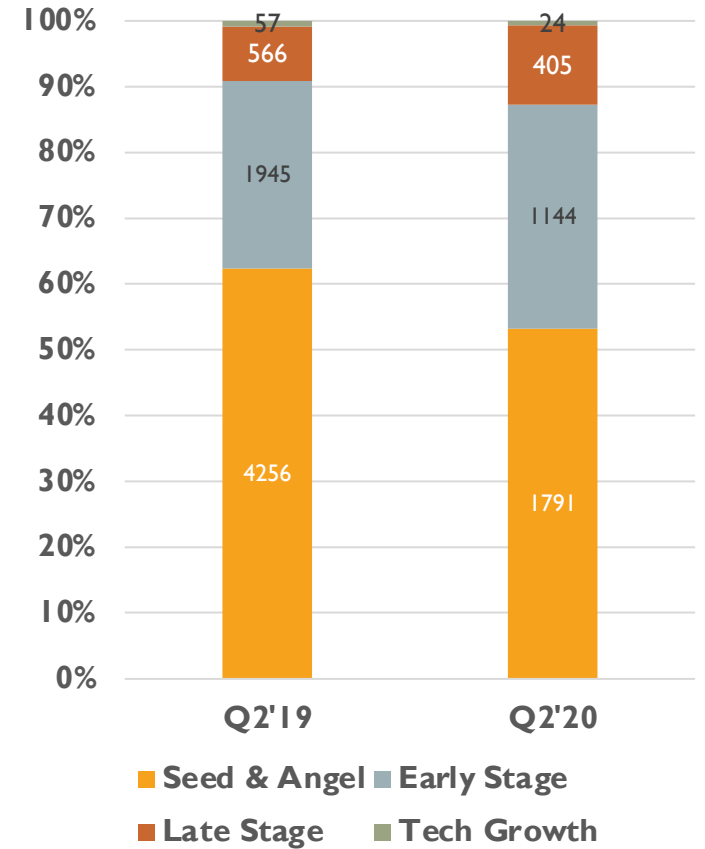
SEED DEALS FELL 41%, \$ FELL 21%,

GLOBAL
DEALS & \$
MOVE LATER
STAGE

Global Deal Volume, Q2'19 vs. Q2'20

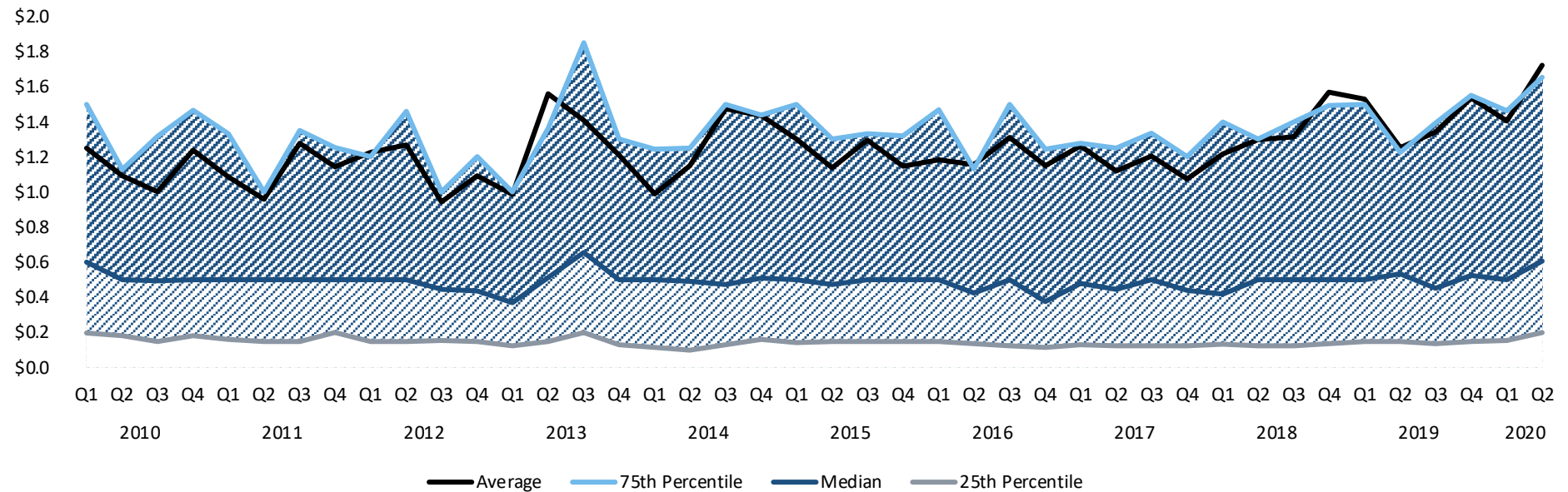


Global Deal Volume, Q2'19 vs. Q2'20

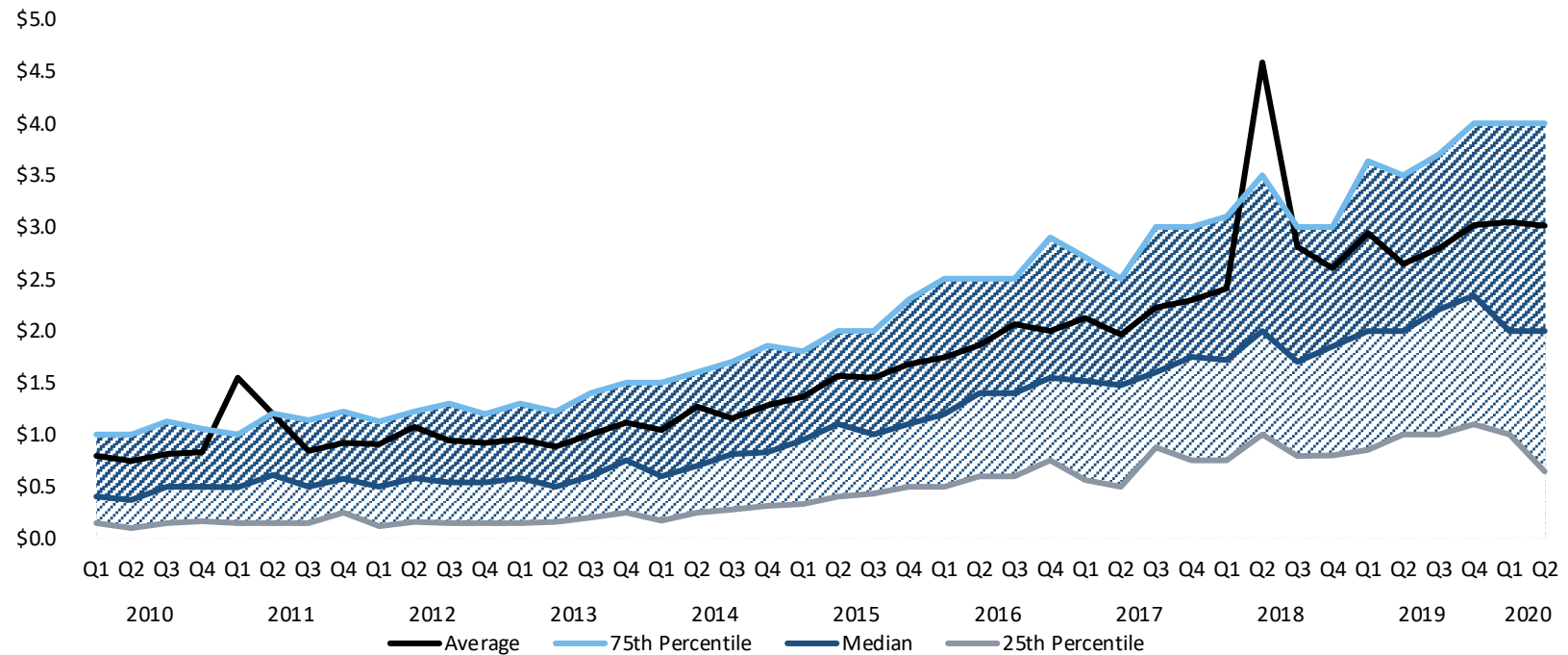


Crunchbase

BUT ANGEL DEAL SIZES HAVE INCREASED



SEED STAGE DEAL SIZES HAVE REMAINED STABLE

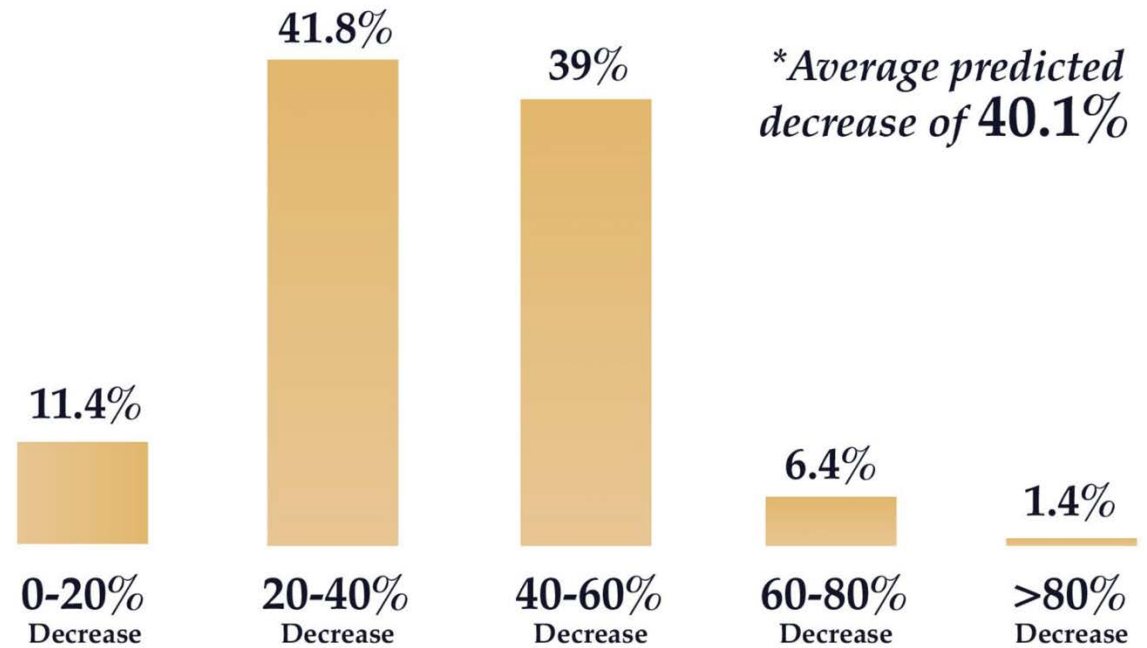


JUNE SURVEYS PREDICTED CONTINUING VALUATION DECLINE

Summary - What do VCs think the overall decrease in valuations will be from pre-pandemic levels?

NfX

VC/Startup Sentiment # 2 (6/2)



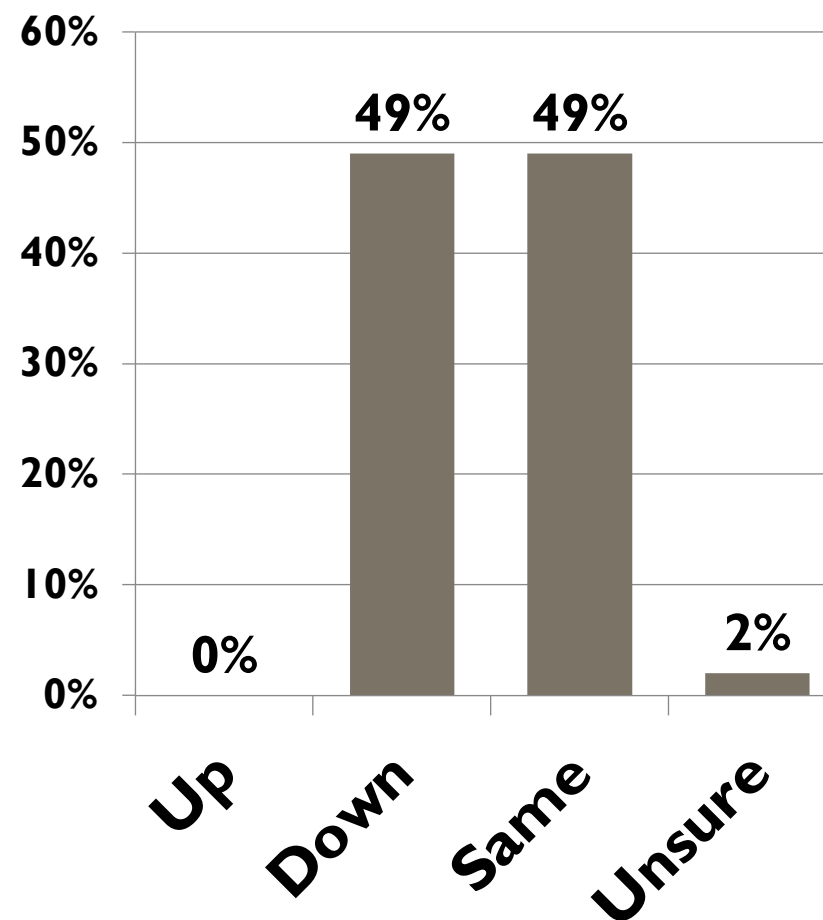
INVESTORS

**ANGEL SURVEY (4/20): 50%
REPORT LOWER VALUATIONS
SINCE COVID CRISIS BEGAN**

Valuations already appear to be declining

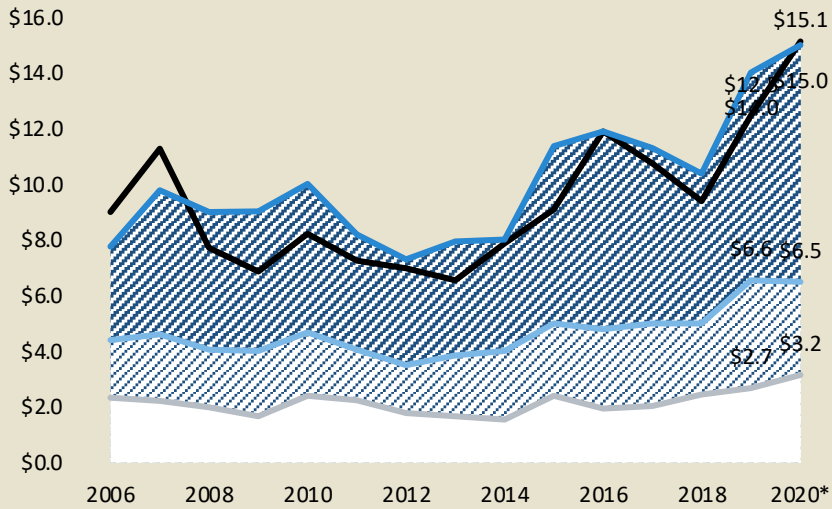
“Same” may also signal that it is too early to assess—perhaps no recent deals

Source: Angel Capital Association, COVID-19 impact survey of angel groups, April 2020



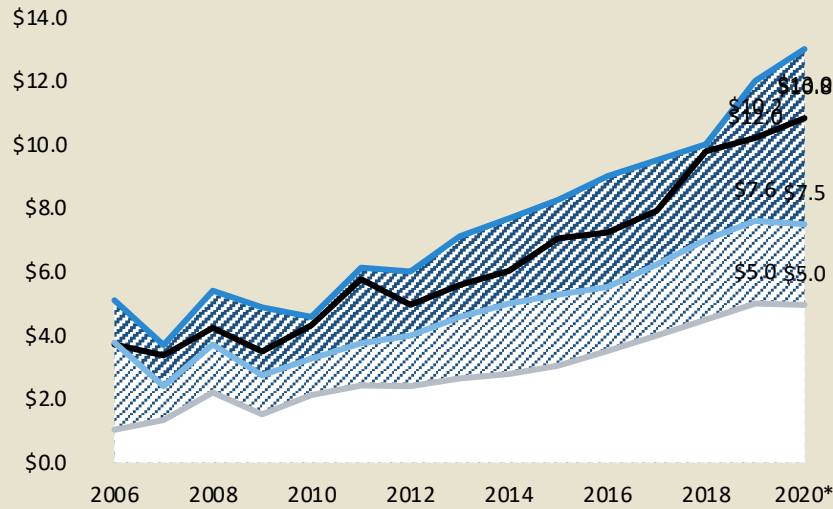
BUT MEDIAN AND AVERAGE HI'20 VALUATIONS HAVE ACTUALLY INCREASED

Angel



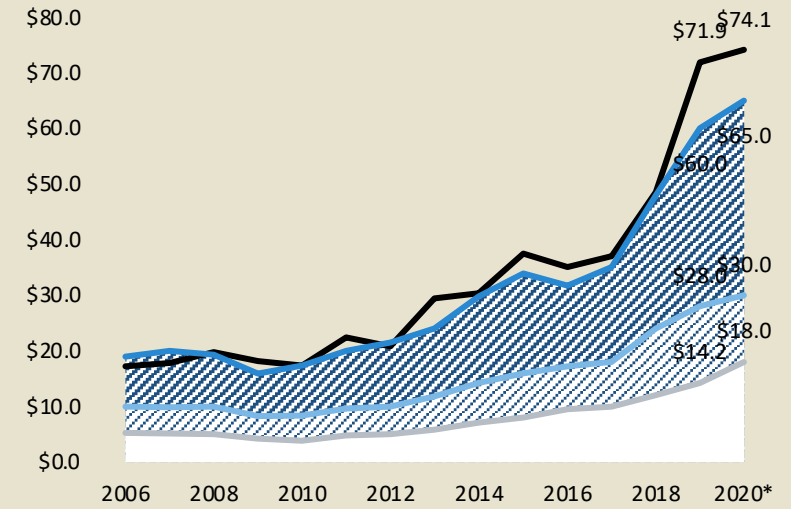
— Average — 75th Percentile — Median — 25th Percentile

Seed



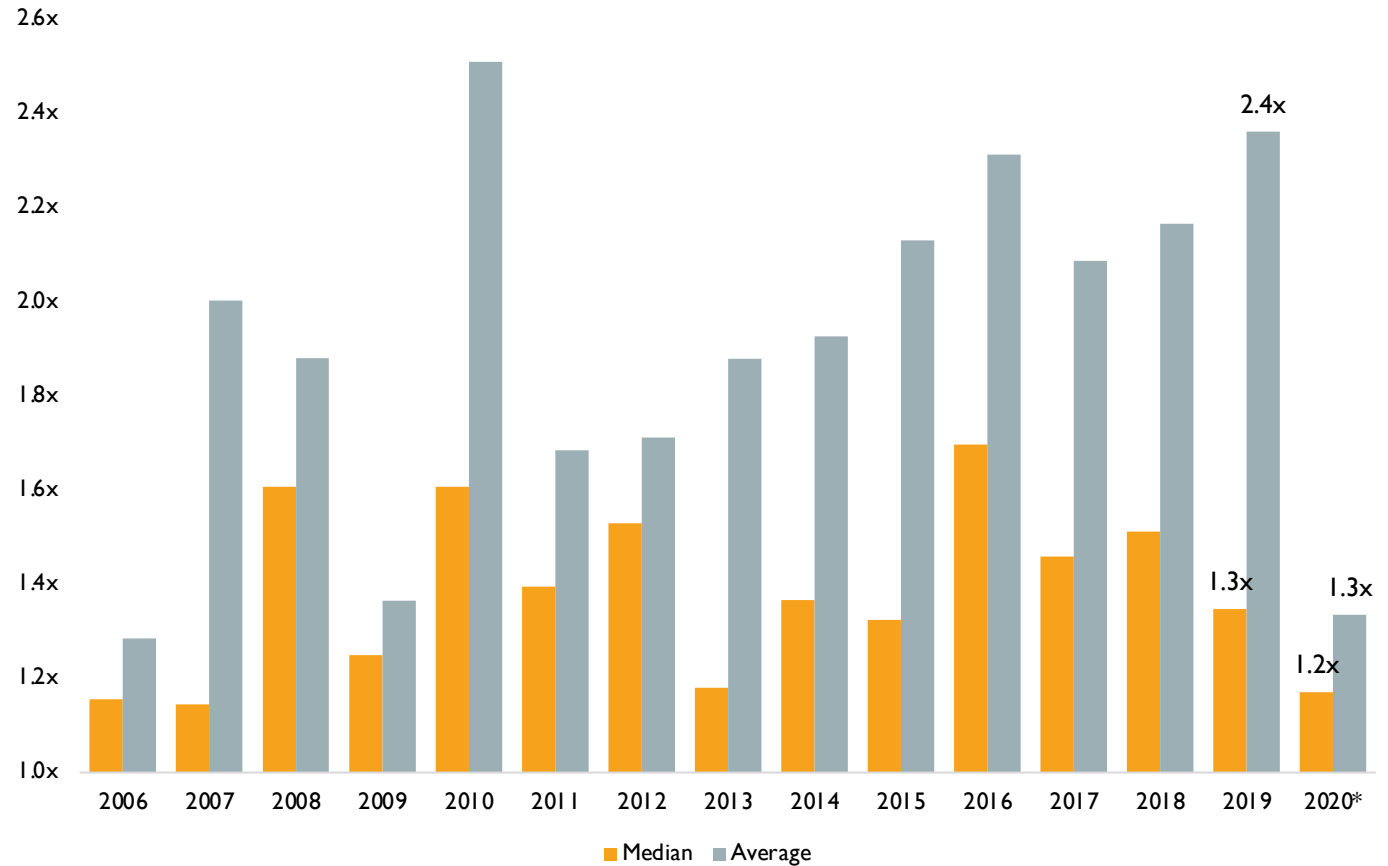
— Average — 75th Percentile — Median — 25th Percentile

Early Stage VC



— Average — 75th Percentile — Median — 25th Percentile

VALUATIONS
ARE UP BUT
Q2 STEP-UP
VALUATIONS
WERE 50% LESS
(26%) THAN IN
Q1 (54%)



 PitchBook

COVID DID NOT CREATE AN EQUITY BUYER'S MARKET

IN Q2 THE % EQUITY
OWNED BY ANGELS
CONTINUED TO DECLINE

Q2'20 SERIES A DEALS FELL
ALMOST 50% FROM Q1'20

DOWN ROUNDS INCREASED
6% TO 15% Q2'19 VS. 'Q2'20

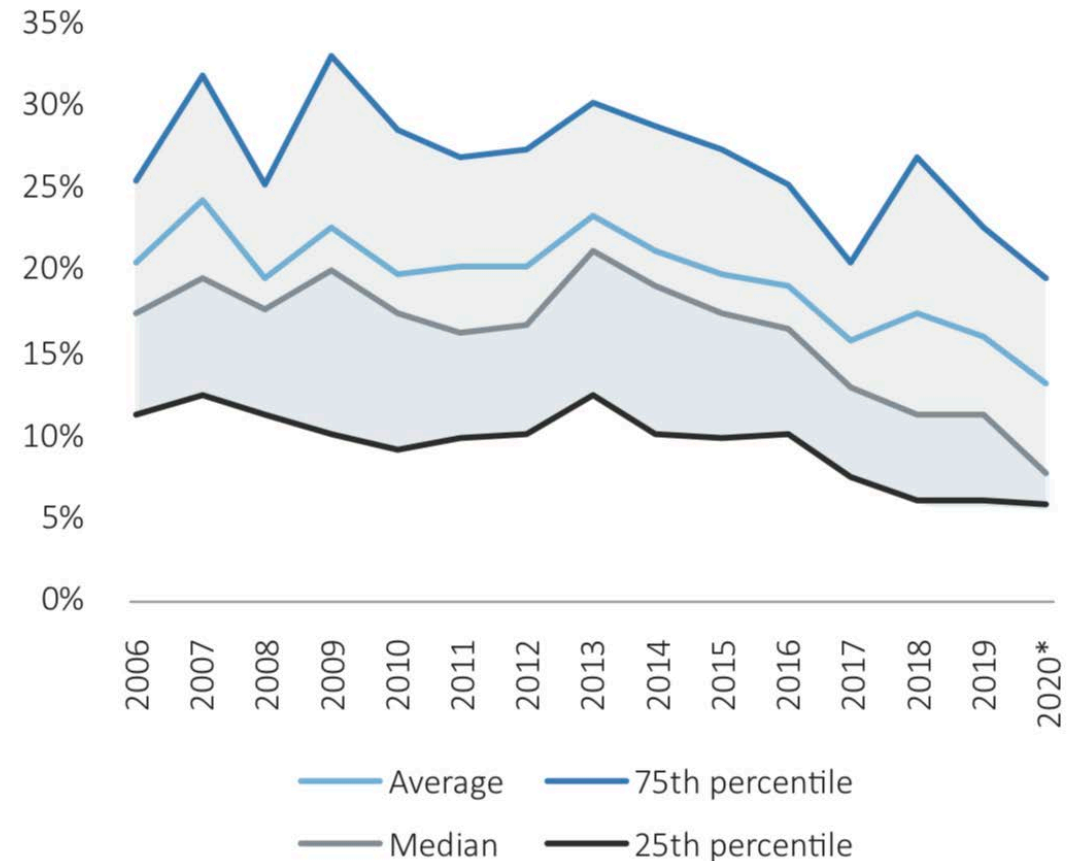
A BIT TOUGHER Q2 TERMS:

- 3X # OF DEALS WITH MULTIPLE LIQUIDATION PREFERENCES
- 3X PAY-TO-PLAY SINCE Q3'19
- 2X CUM. DIVIDENDS SINCE Q4'19

THESE TERMS AFFECTED ONLY A
SMALL (BUT GROWING) % OF DEALS

(FENWICK & WEST)

Decline in % of equity owned by angels



Source: PitchBook | Geography: US

*As of June 30, 2020


VERY STRONG SECTOR DIFFERENCES

COVID ACCELERATES EMERGING TRENDS


- TELEMEDICINE
- REMOTE MONITORING
- DRUG RESEARCH IN SILICO
- TELE-WORK, TELE-PLAY
- DISTANCE LEARNING
- ROBOTIC CARE /
AUTOMATION
- AI-BASED WORK PROCESS
- AUTONOMOUS DELIVERY
- TOUCHLESS SERVICE
- HARDENED SECURITY
- HIGH PERFORMANCE, AI-
EMBEDDED EDGE
COMPUTING

 Life Sciences


 Mobile

 Robotics


 Process Automation

 Security

 Defense Technology

 Food & Beverage

 Delivery Services

 Hardware

 Edu-tech

 Blockchain

 Verticalized AI

 Collaboration & Communications

 Local Services

 Hospitals

 Advertising

 Automotive

 Civilian Aerospace

 Transportation

 Leisure

 Retail

 High-end Fashion

 Hotels & Hospitality

 Travel

 Commercial Real Estate

 Sports and Recreation

 Arts & Entertainment

 Parking

THE FORECAST VS. THE REALITY FOR Q2

Startup deals and dollars will continue to decline across all investing stages

Early stage capital will be harder to raise

Deal sizes will shrink

US startup valuations will continue to decline

😞 Deal terms will begin to favor early stage investors

Mass death of startups (Startup Genome)

Early stage investing will be a less attractive asset class for CVCs & Fund investors

Sector performance and attractiveness will continue to vary widely based on COVID-related factors

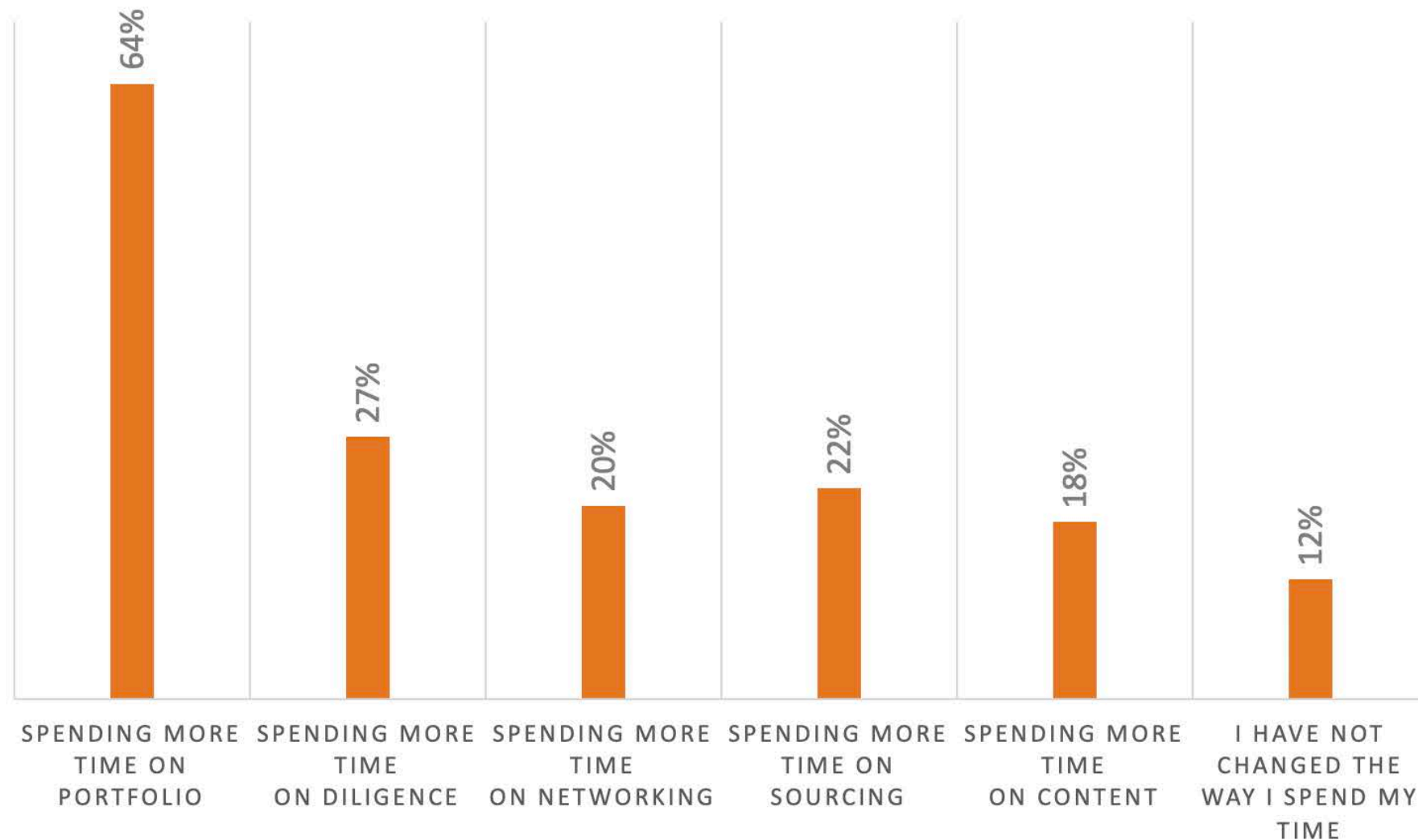
GENERATION Z COPING WITH COVID

- Board Games
- Series Z
- Public Market Recovery



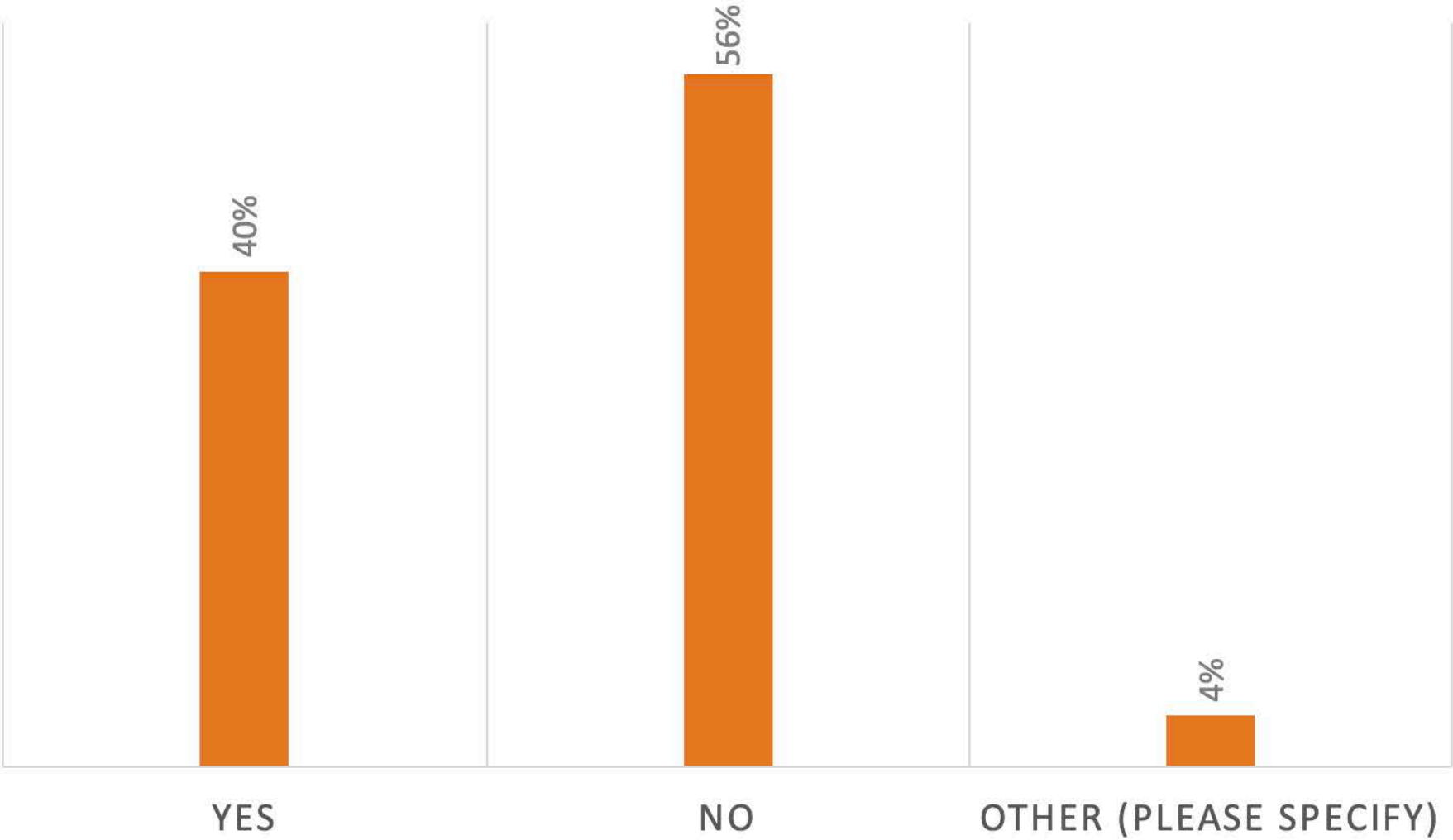
Q2 Survey VCs adjusting to Covid

Q5:
HAVE YOU
CHANGED
THE WAY YOU
SPLIT YOUR
TIME?



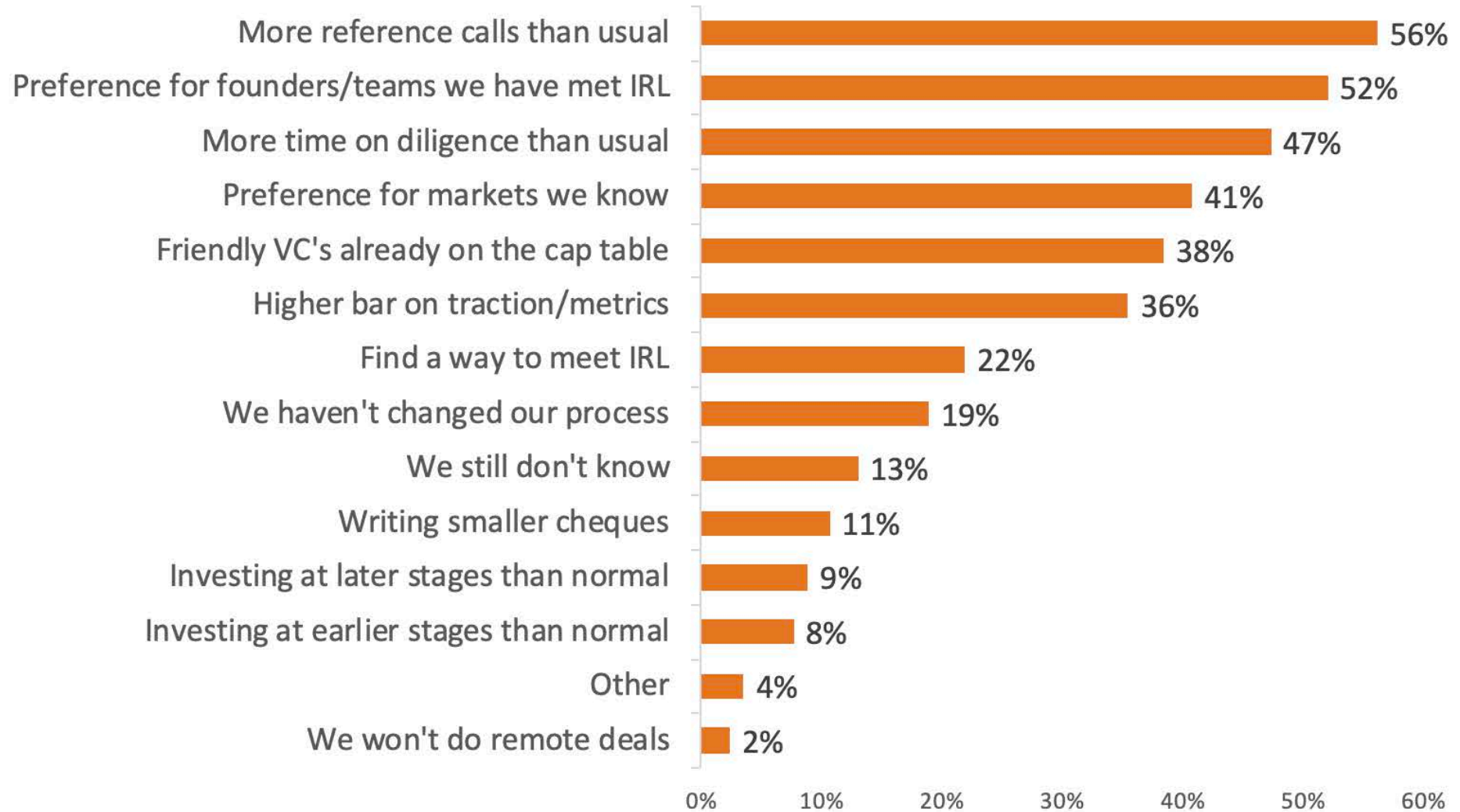
Doing “Zoom” Deals? Only 4% of VCs unwilling

Q2:
HAS YOUR
FIRM DONE A
FULLY
REMOTE
DEAL?

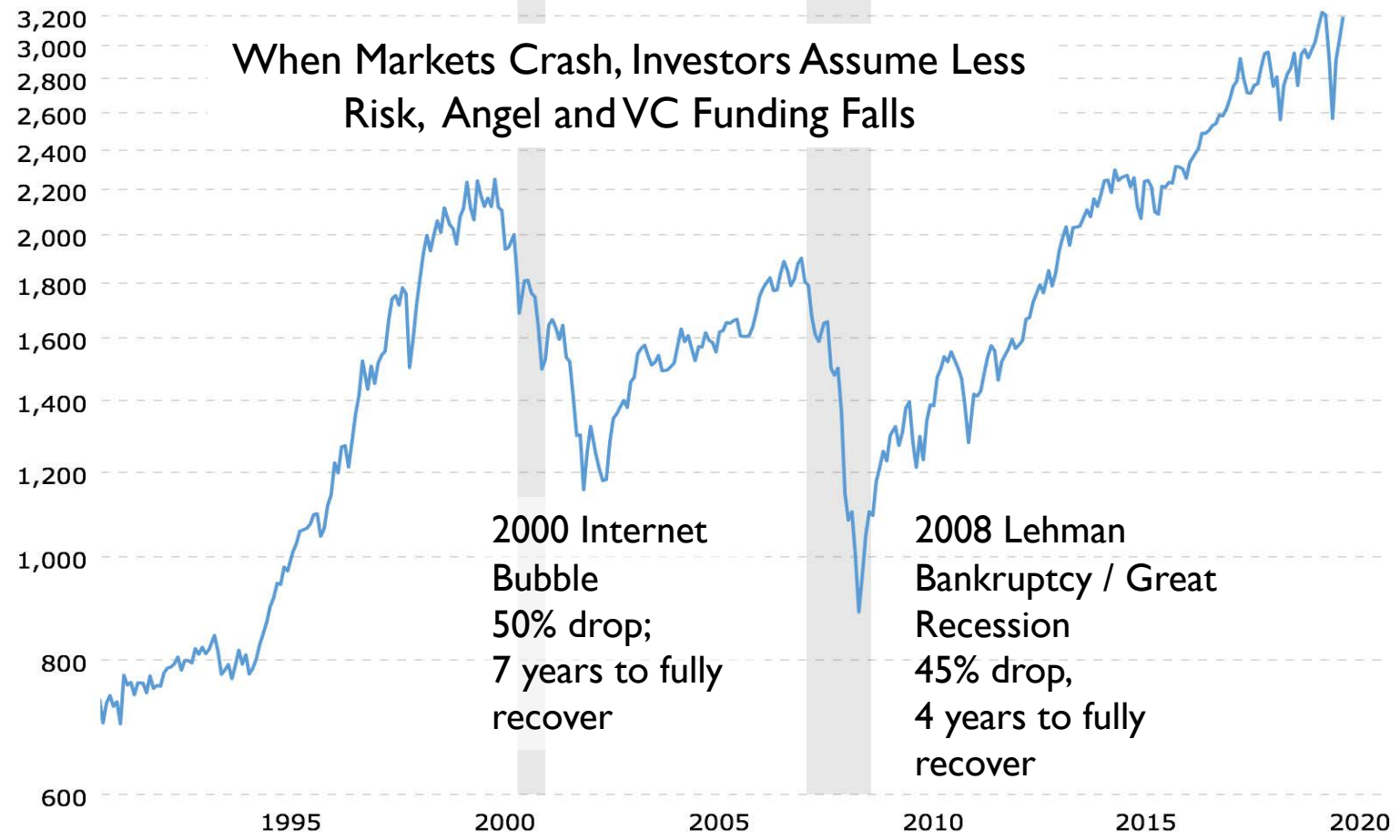


CONSOLIDATED RESULTS

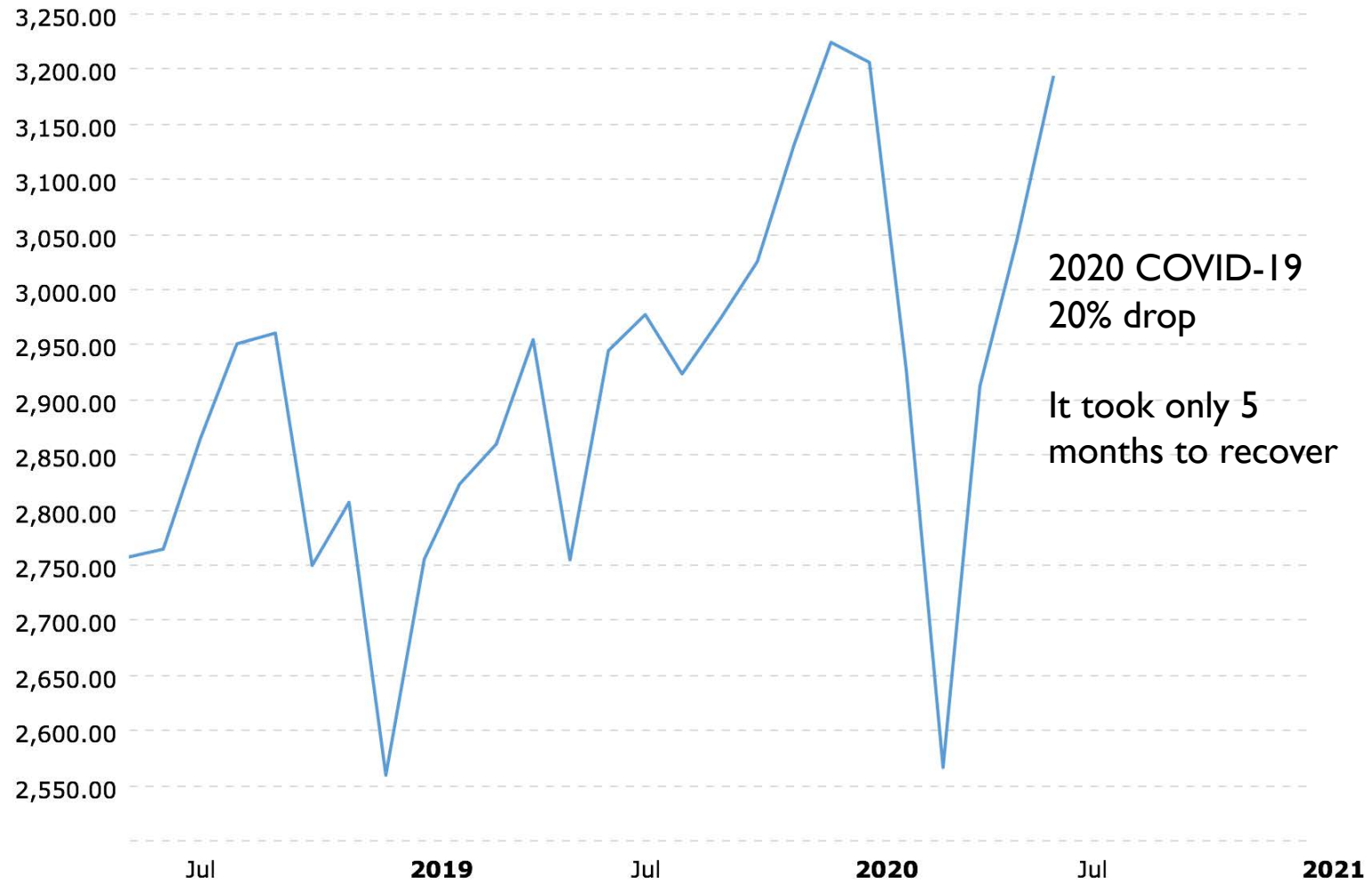
Q3:
WHAT NEW
PROCESSES
HAS YOUR
FIRM PUT IN
PLACE IN
ORDER TO DO
A REMOTE
DEAL?



S&P 500



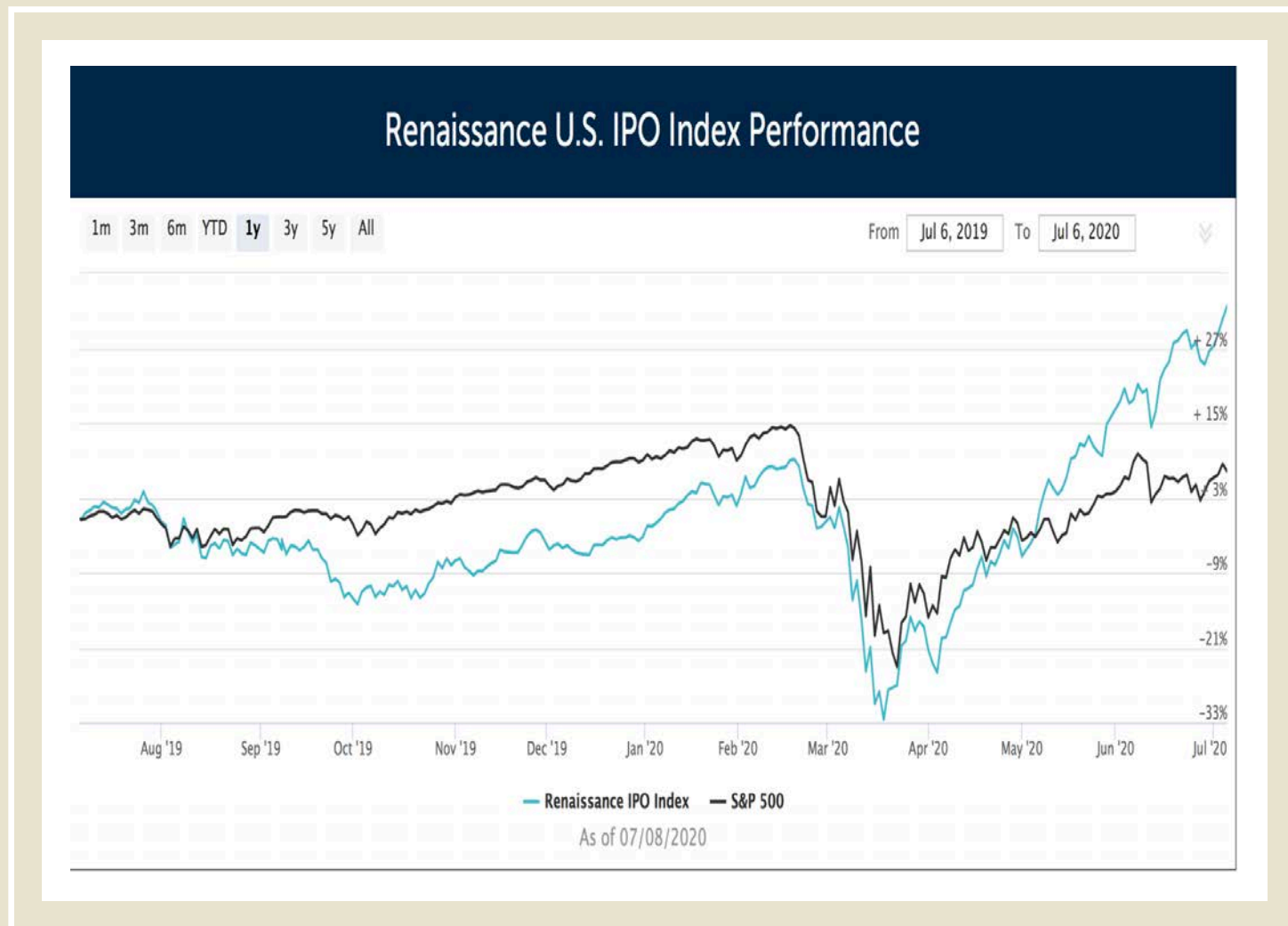
S&P 500





OTHER SIGNS OF LIFE

- IPO market activity in June
 - Zoominfo: 62% uptick at IPO
 - Vroom: 100% uptick at IPO
 - Lemonade 139% uptick at IPO
 - Accolade: 35% uptick at IPO
 - 7 companies valued at \$44B have filed in August to go public
- VC interest in reviewing pitch decks in May was highest in three years (DocSend)
- Angels and VCs: “We are open for business and adapting”



“There is a level of resiliency in Silicon Valley that we did not have 10 years ago.”

– Jeff Richards, GGV Capital (July 2020)



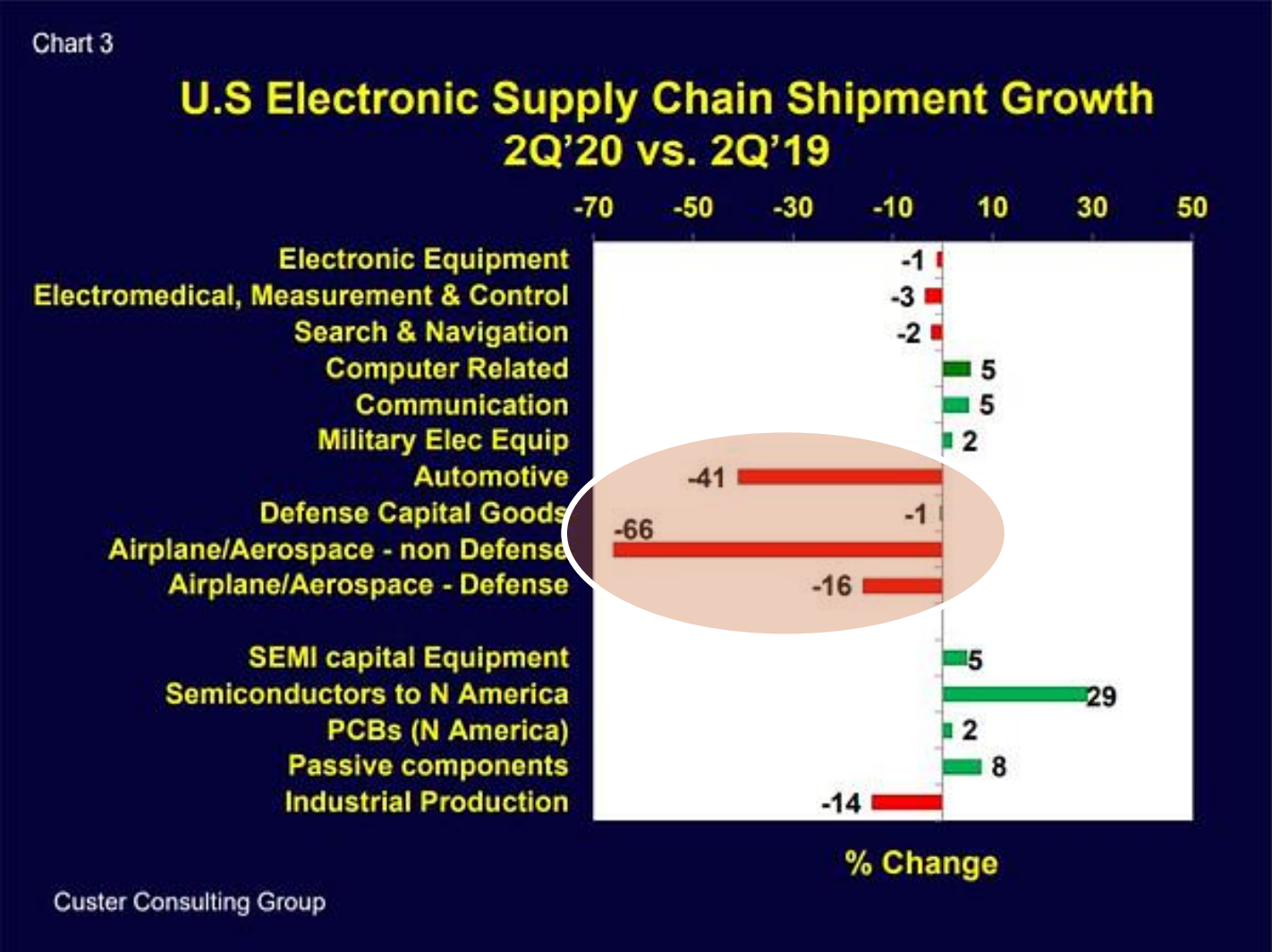
CONCLUDING THOUGHTS

- Current early stage capital is a “down” market but not an apocalypse—many signs of life
- Down markets are great times to invest
- Investors are embracing Generation Z(oom) deals and experimenting with new models of diligence and deal execution—as well as new models of angel group cohesion
- The fundamentals of deal making, diligence and post-investment nurturing haven’t changed
- Quarterly ups and downs don’t mean much: we build companies for the long term
- Recovery of IPO market likely to bring fund investors back to VC asset class and more follow-on capital
- Two quarters of data—and small numbers—are not necessarily a trend
- And, above all:



SEMICONDUCTOR FUNDING TRENDS

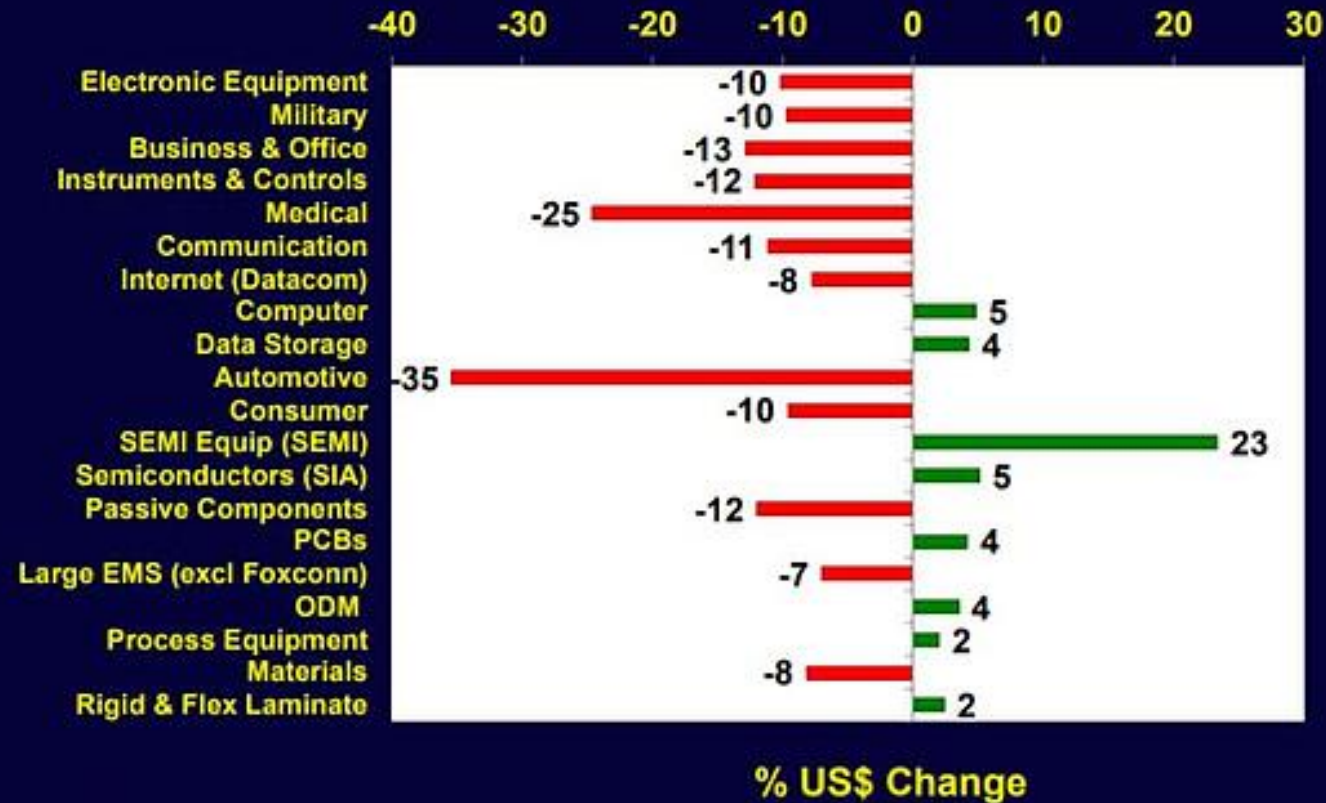
DEMAND: Q2 US ELECTRONICS SHIPMENTS MIRROR OVERALL US SECTOR PERFORMANCE



DEMAND: Q2 WAS VERY TOUGH FOR THE GLOBAL ELECTRONICS INDUSTRY

Chart 4

Global Electronic Supply Chain Growth 2Q'20 vs. 2Q'19 (preliminary)



Custer Consulting Group

DEMAND: PURCHASING IS BOUNCING BACK, PARTICULARLY IN THE US AFTER ROUGH HI'20

Chart 2

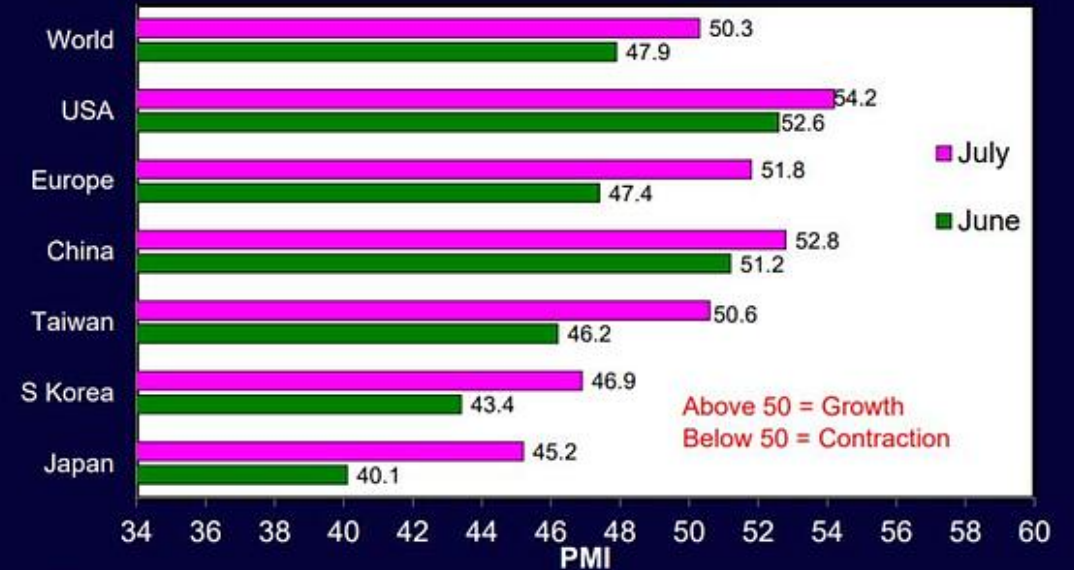
Global "Purchasing Managers" Index Diffusion Index, >50 = Growth



www.markiteconomics.com

Chart 1

Purchasing Managers' Indices July vs. June 2020



www.markiteconomics.com

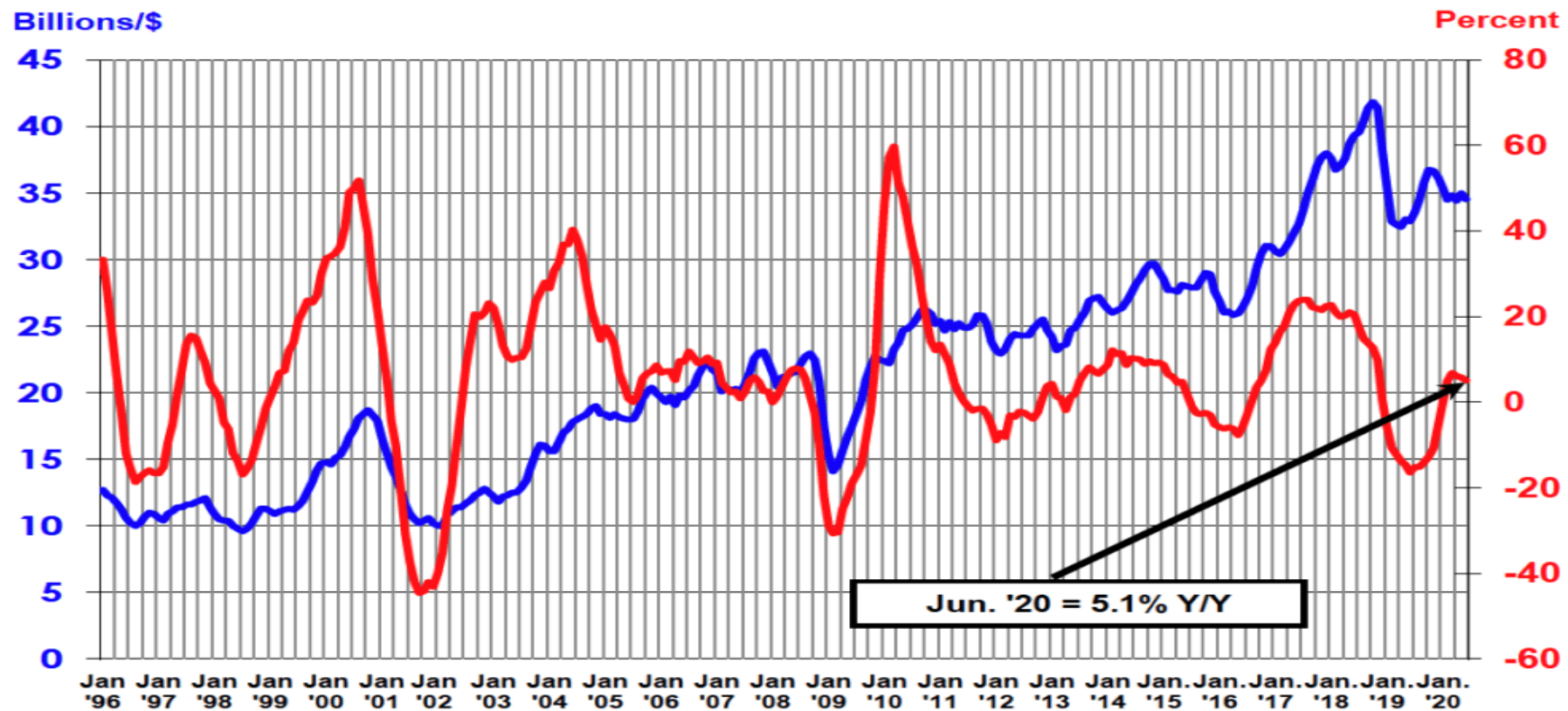
www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/

SEMICONDUCTORS: A BRIGHT SPOT

GLOBAL SEMICONDUCTOR REVENUES INCREASE 5.1% YOY TO \$35B IN JUNE 2020

Worldwide Semiconductor Revenues

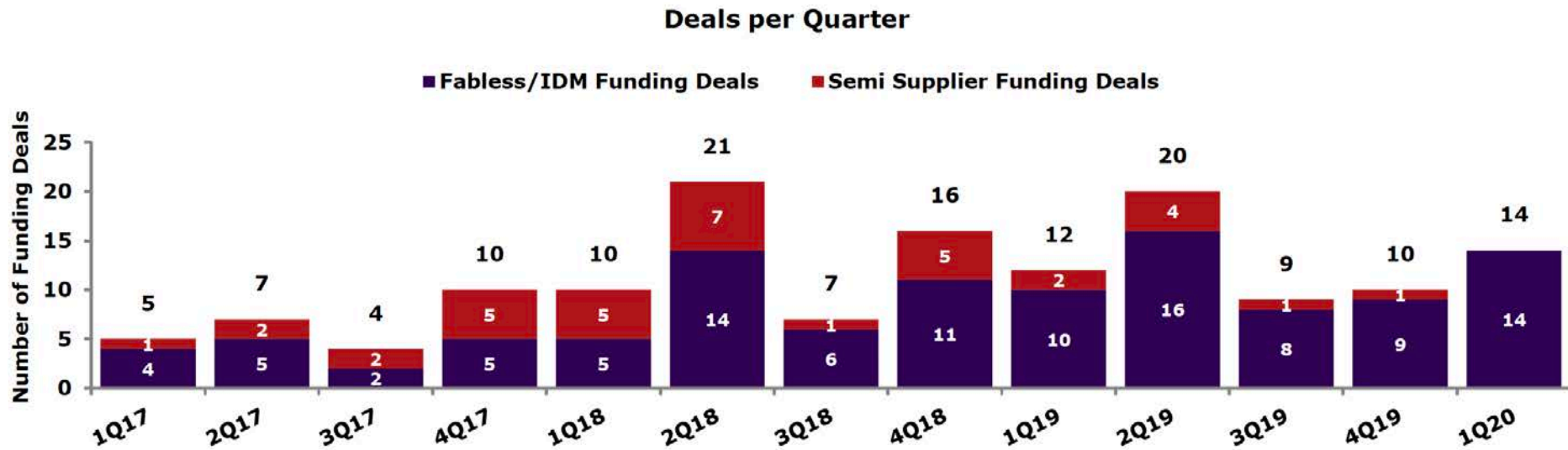
Year-to-Year Percent Change



Source: WSTS

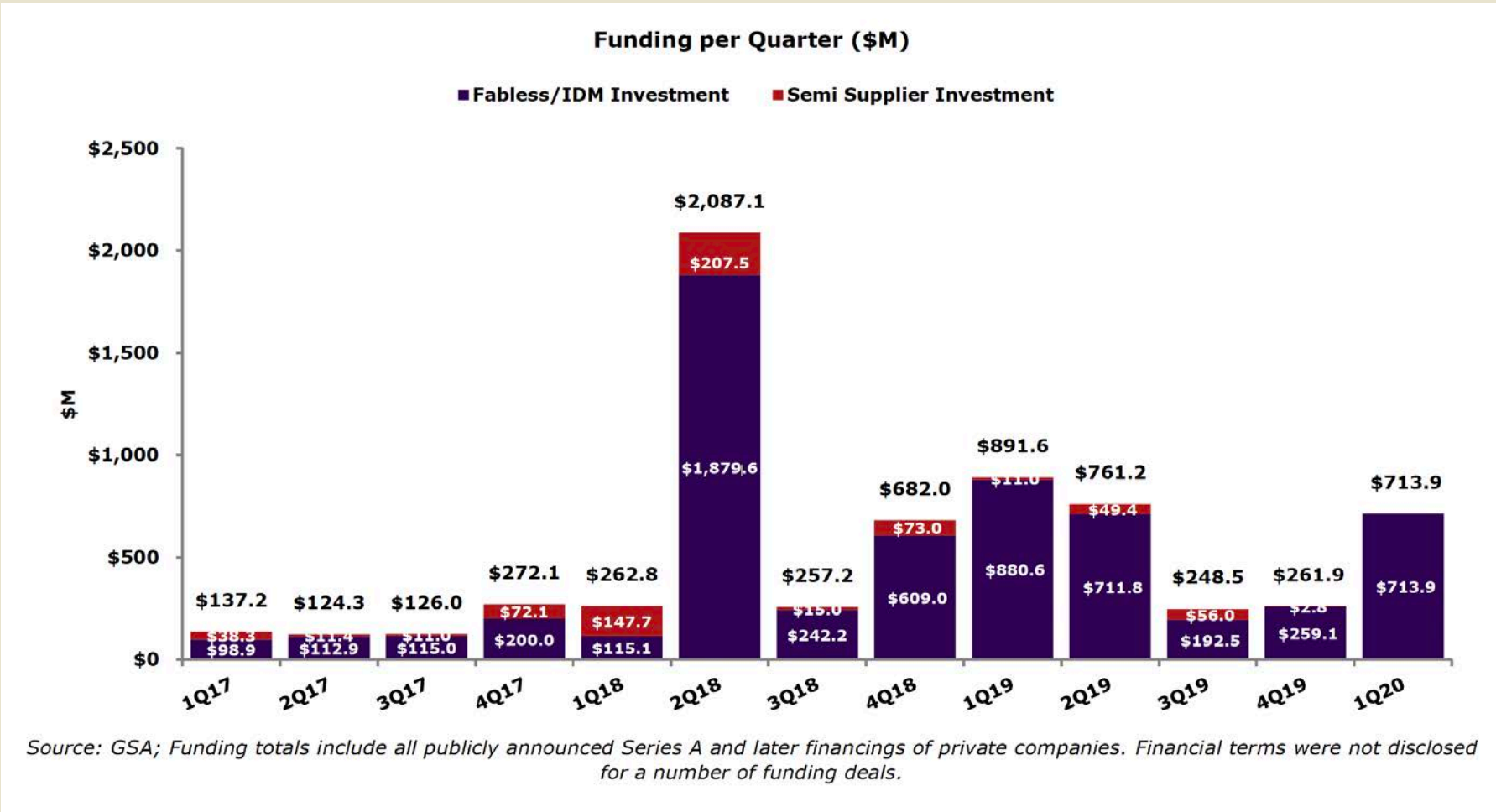
Revenue Y/Y % Change

OF SEMICONDUCTOR VENTURE DEALS UP SLIGHTLY Q1'19 TO Q1'20 AND UP FROM Q4'19

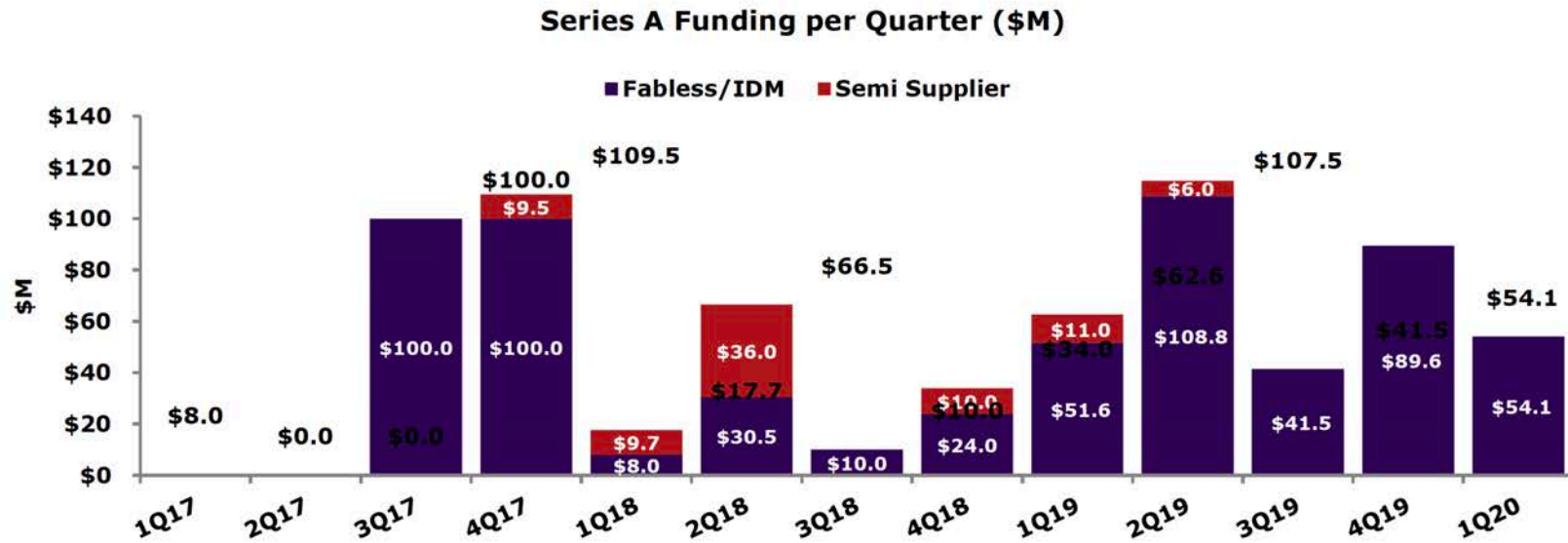


Source: GSA; Funding totals include all publicly announced Series A and later financings of private companies.

BUT \$ INVESTED IN SEMICONDUCTOR DEALS ARE DOWN 20% QI'19 TO QI'20



SERIES A DEALS DEALS DOWN 50%, \$ DOWN 15%



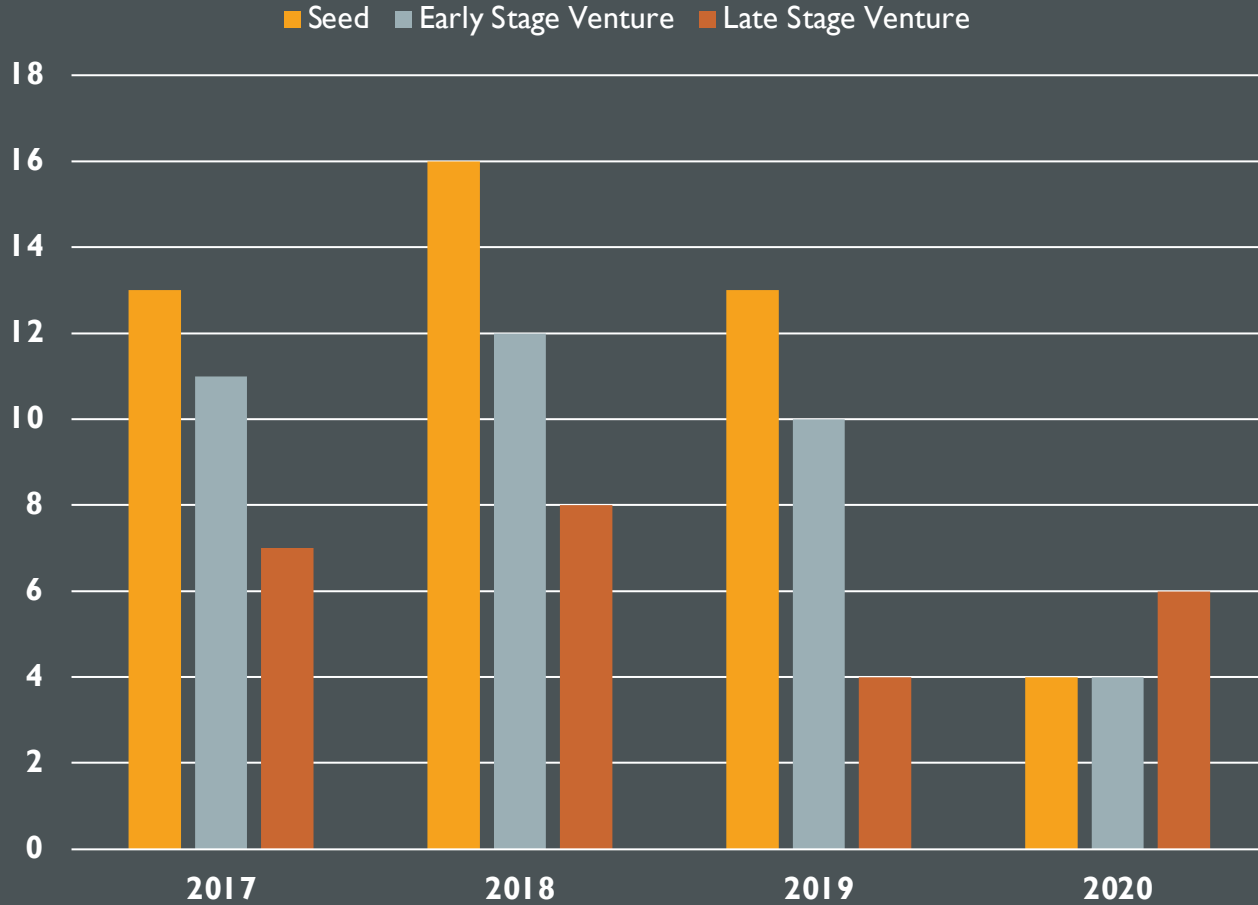
Source: GSA; Funding totals include all publicly announced Series A financings of private companies.



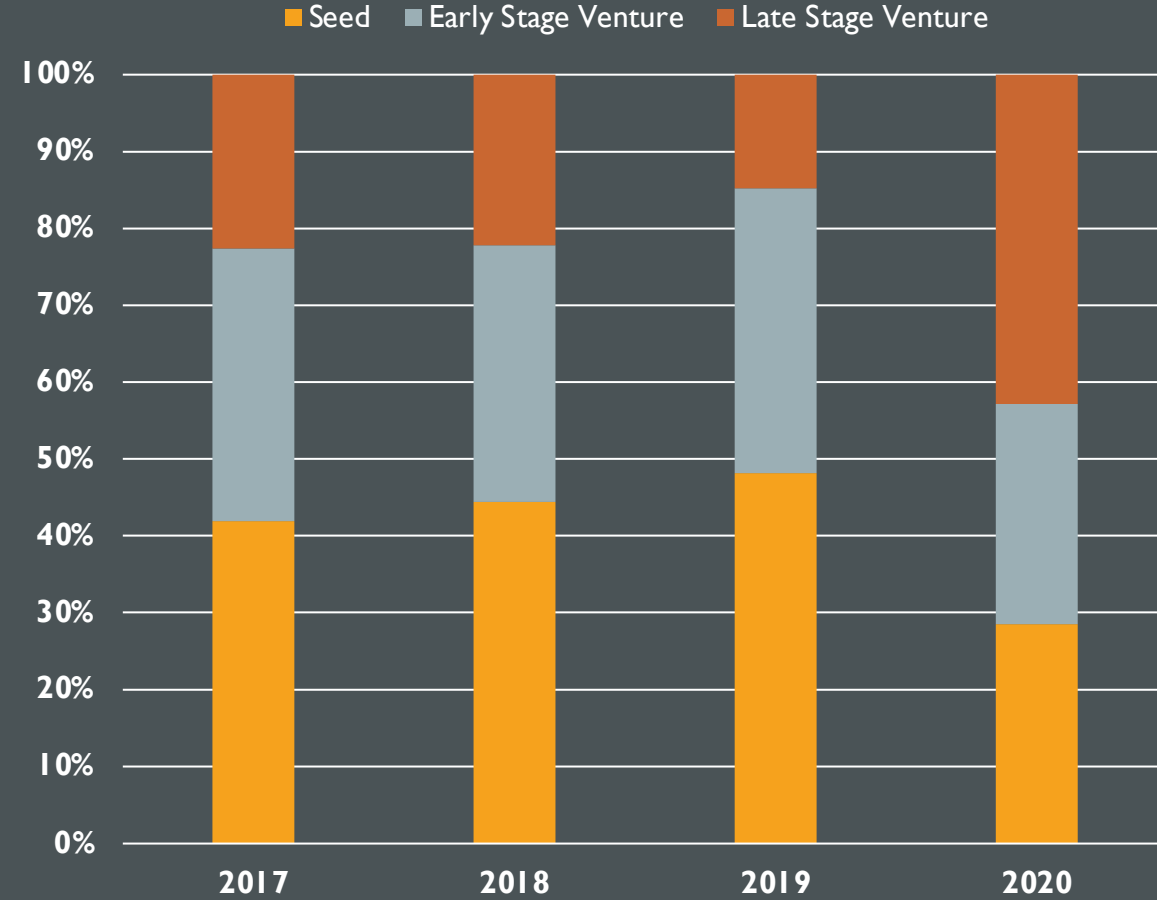
Source: GSA; Funding totals include all publicly announced Series A financings of private companies.

US SEMICONDUCTOR 2020 FUNDING ROUNDS SHIFT TO LATER STAGE

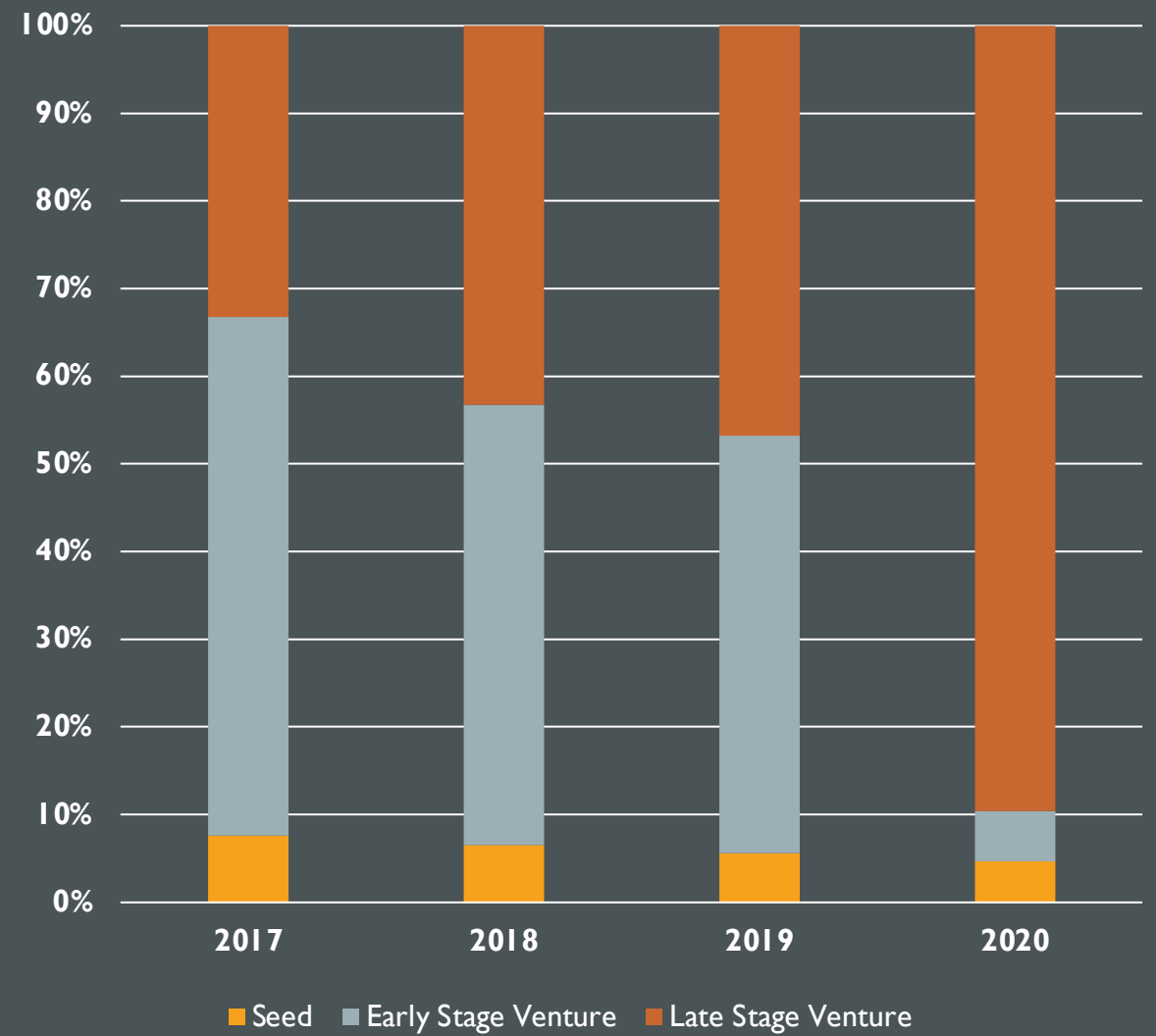
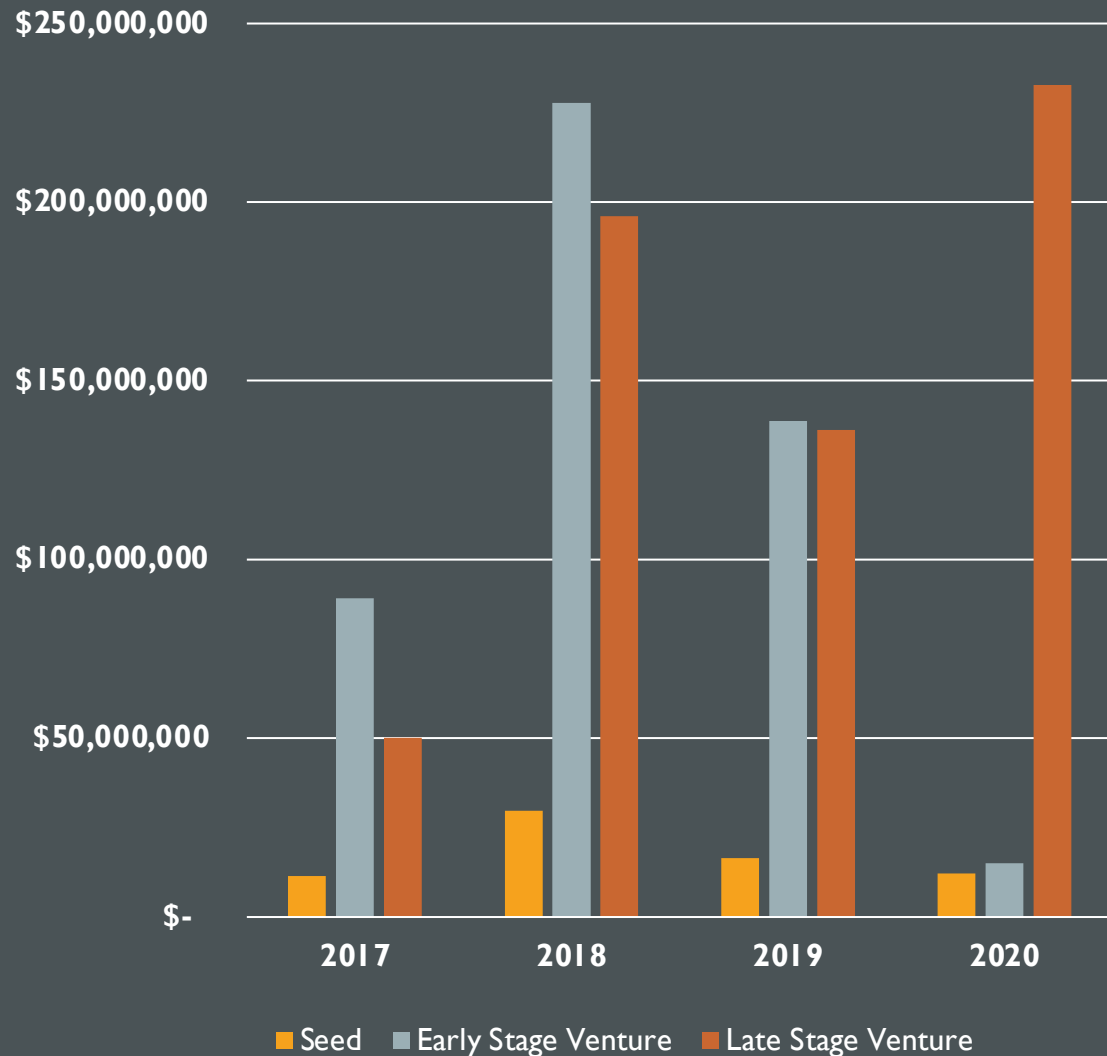
Number of Funding Rounds, 2017 - 2020



% of Funding Rounds by Stage, 2017 - 2020

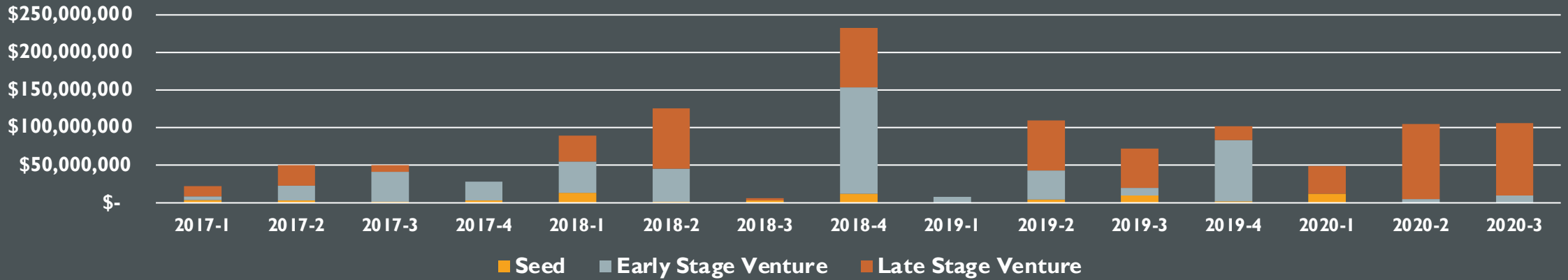


DRAMATIC SHIFT TO LATER STAGE \$

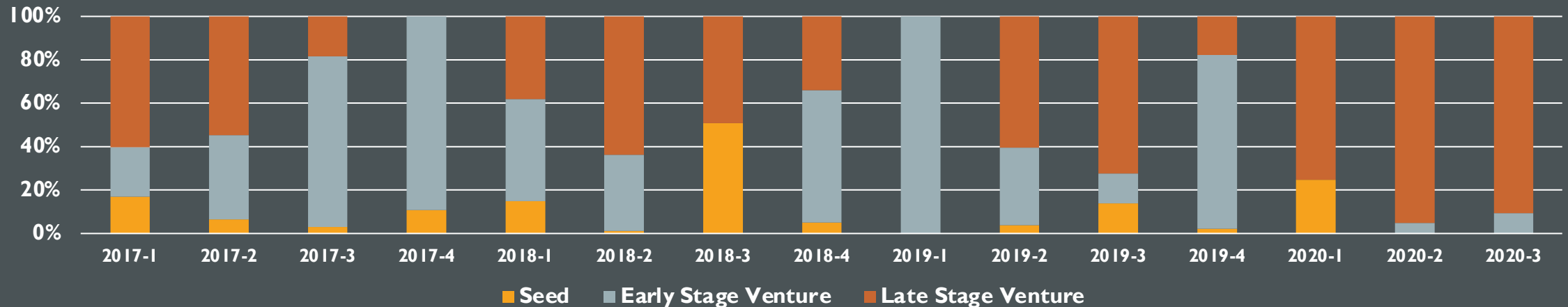


US TOTAL DEAL COUNT STABLE, BUT \$ MOVE LATE STAGE

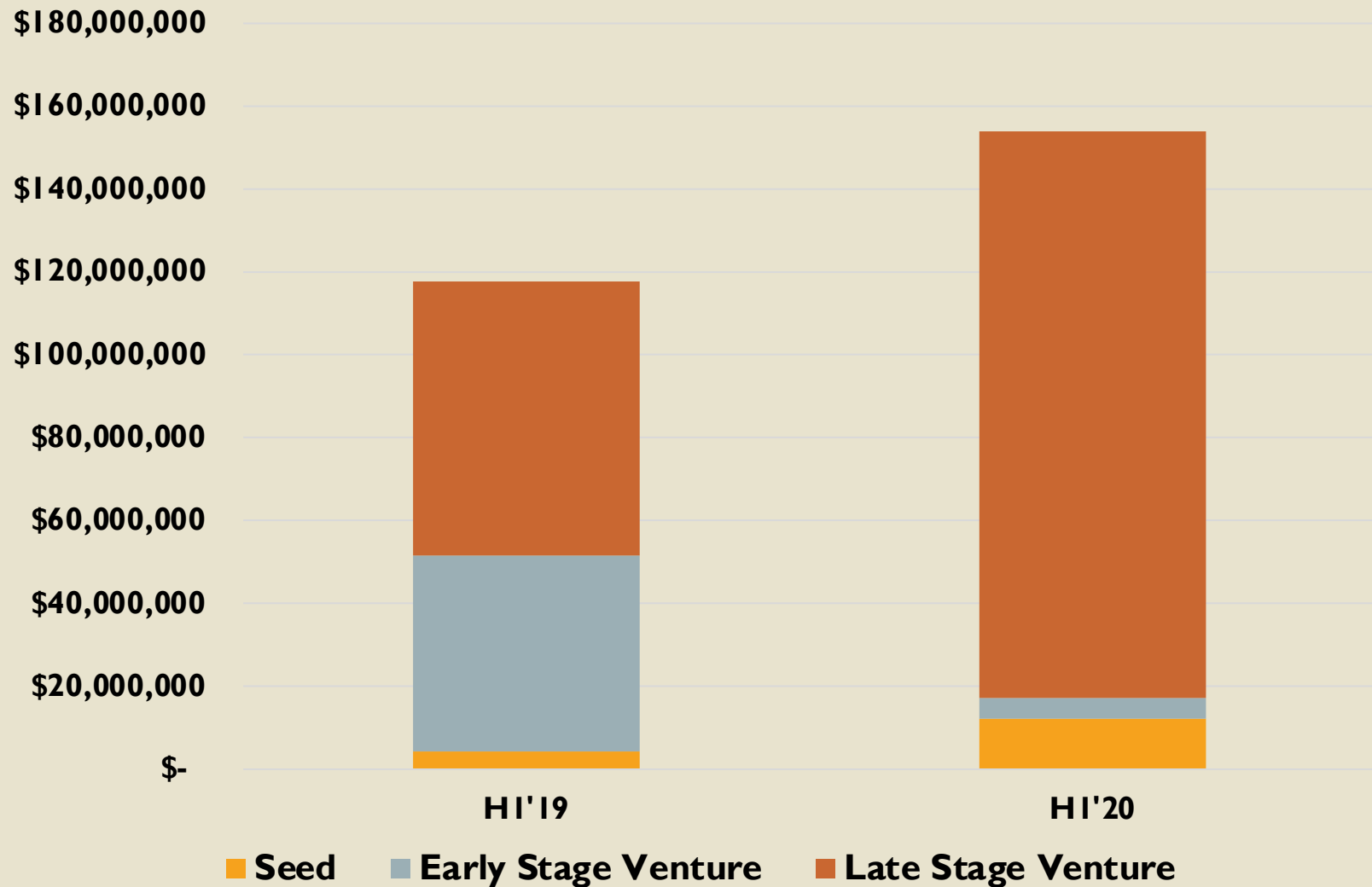
\$ Invested by Quarter by Stage, 2017 - 2020



% Invested by Quarter by Stage 2017 - 2020



US H1'19 VS. H1'20 US SEMICONDUCTOR FUNDING SHOWS DRAMATIC LATE STAGE SHIFT



SEMICONDUCTOR FINANCE OUTLOOK

- A bright spot in broader electronics sector revenues
- Some see the beginnings of a recovery from 2019 but one quarter is not a trend
- Demand in many electronics sectors remains weak, gated by broader economic trends—some analysts see 2H'20 headwinds
- Semiconductor financing trends are similar to broader angel/seed stage “flight to quality”
 - Fewer seed stage
 - More later stage
- The Good News: more opportunities for early stage investors
 - But understand who is likely to follow-on after you, since early stage as an asset class is depressed

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