Rothschild & Co
Global Advisory

Growth Equity Update

August 2023 – Edition 18

- **From zero to $7.7bn in two years**. Hopin, the virtual events business, was Europe's *'fastest growing start-up of all time'*. Following the sale this month of the bulk of its business to RingCentral for c$50m we chart its rise and its post Covid retreat
- **The challenges facing venture capitalists**. Pitchbook calculates that one year IRRs are negative for US VC for the first time since 2016. Acceptable returns are more testing in a period of high interest rates, exits are more difficult given the slow IPO market and funding from LPs has been drying up. We look at the responses of VC firms
- Even as reports charted the lowest **H1 fund raising in the IPO market** since 2009 (Europe) and 2015 (US) there was a flurry of successful US and European IPOs (Oddity Tech, Apogee Therapeutics, Hidroelectrica, thyssenkrupp nucera) with strong aftermarket performance
- **Sandals and Semiconductors**: Is the cavalry over the next hill for the IPO market? Shares have performed, volatility has reduced, interest rates are peaking, inflation is falling, a soft economic landing is on the way, strategists are upgrading their year-end market targets. September could see the float of Arm Ltd ($30bn-$70bn valuation) and of Birkenstock (c$8bn)
- If the **Arm and Birkenstock** IPOs go ahead, achieve reasonable valuations and trade decently there seem few reasons for the IPO market not to broaden out
- **Recovery in the Vision Fund**. In its Q1 to end June the SoftBank Vision funds returned to profitability for the first time in six quarters and SoftBank is switching to *'offense mode'*
- With interest rates peaking, **NASDAQ is up 34% ytd**, the S&P 500 16%, STOXX Europe 600 is up 8%, the FTSE 100 is flat and the Refinitiv Venture Capital Index is up 31% ytd.

Whatever happened Europe's fastest growing start-up of all time?

Hopin was founded in June 2019 and raised a seed round of $0.3m in October that year. In July 2021 it raised $471m at a post money valuation of $7.7bn, bringing the total raised to $1.16bn and it became the fast growing European start up ever. By August 2023, after three rounds of redundancies, the bulk of Hopin's assets were sold for c$50m to US business RingCentral and founder Johnny Boufarhat stepped down as CEO. It's a tale of the pandemic, Covid lockdowns, the excesses of the VC market in 2021 and the lack of a bar at virtual events….

Hopin was one of the venture capital stories of the Covid era. The global Events industry (trade exhibitions, shows and conferences) was worth c$29bn pa (source: AMR) in 2019, the last full year before the Covid pandemic struck. In January 2020 the Covid epidemic began to affect trade shows in China. Very quickly as the geographic spread of Covid widened, travel began to be restricted and lockdowns became commonplace. It led to a crisis in the traditional Events business with physical shows and conferences first postponed and then cancelled.

The global exhibitions and trade shows industry is very fragmented. In early 2020 there were (and still are) a handful of major independent players, led by Informa, RELX, Emerald and Ascential plus major venue owners like the Messe Frankfurt. The US is substantially the largest events market in the world, followed by China and the UK.

For investors one of the key attractions of Events operators is the dominant industry franchises that events owners can establish and maintain (think Cannes Lions owned by Ascential or the Hong Kong Jewellery Show owned by Informa). In a media and advertising world where traditional means of consumption and advertising forms (linear TV, newspapers, magazines , radio , Yellow Pages) had been devastated by digital disintermediation, exhibitions were seen as largely free from this threat.

Covid brings the industry to a halt: Fast forward then to 2020. As lockdowns and travel restrictions came into place physical Exhibition companies were suddenly obliged first to postpone, and then to cancel, their planned events. Industry revenues plummeted. The uncertainty over the timing of lockdown restrictions being removed, and their frequent reimposition as new Covid variants appeared, made forward planning of physical events very challenging with the whole rhythm of the industry thrown off course.

Step into the breach Hopin. Hopin was presented in its first iteration as a virtual events' organiser. Its rise was astonishing. The business was founded in June 2019, around nine months before Covid impacted. As Covid struck and organisers looked to substitute physical events with virtual events conducted in a more sophisticated style than a Zoom meeting could offer, Hopin's software features (keynotes, break out rooms, expo booths) came into their own.

A $6.5m seed round in February 2020 valued the business at $40m post money. At this stage Covid had begun to affect physical tradeshows in SE Asia but shows in the US and Europe were going ahead. Hopin meanwhile had a handful of staff and no revenues.

By March 2020 the situation had dramatically changed with physical exhibitions worldwide effectively at a halt. In March 2020 the number of attendees on Hopin hosted events was 16,000. By May this had risen to 175,000.

Initial hopes that physical shows would resume in US and Europe by Q3 were dashed. China resumed domestic shows in July 2020 but international exhibitors and attendees were unable to travel meaning these shows fell well short of their pre-pandemic attendance.

August 2020- Hopin's Series A raised $41m at a $250m valuation. With the assumed temporary interruption to the events industry now looking more substantial, Hopin's August 2020 Series A raised $41m at a $250m valuation. Indeed the bulk of Hopin's fundraising took place in the hiatus period for US and European shows, which started in March 2020 and ended (in the US at least) in Q3 2021, around the time that Hopin secured its final fundraising round, the $471m Series D In July 2021. This was also close to the peak of the venture capital fundraising boom.

December 2020 - $230m Series B at a $1.5bn valuation. In November 2020 the first Covid vaccines were announced but the physical events players warned against expecting an early return to normal travel conditions and physical shows. Hopin's August fundraising was swiftly followed in December 2020 by a $230m Series B at a $1.5bn valuation. At that point Hopin indicated an ARR of $20m, implying a c75x revenue multiple.

In January 2021 Hopin embarked on what was to become a series of acquisitions with the $250m purchase of streaming business StreamYard in January 2021. StreamYard became the default Hopin streaming option and brought with it c$27m of ARR. It was purchased for an estimated 4-8x revenue, partly using Hopin's much more highly valued paper.

$414m Series C in March 2021- valuation $5.8bn: The next step was a $414m Series C in March 2021. By that time the ARR was indicated to be c$70m including the $27m from StreamYard. The group was valued at $5.8bn post money implying a revenue multiple of c83x. At this point LinkedIn became a shareholder and Hopin CEO Johnny Boufarhat talked about the company being operationally IPO ready in 2022/23.

Further acquisitions - Streamable (video hosting site), Jamm (video collaboration site) and Boomset (online events solutions) followed. By June 2021 Hopin, which had six employees at the start of 2020 had reached 660 employees in 40 countries.

In June 2021 the Financial Times reported that Hopin founder, Johnny Boufarhat had been able to sell a portion of the business in a secondary sale connected with the fundraising. The FT calculated that the sale of a 17% stake had netted the 26 year old founder around £100m.

July 2021 : US tradeshows resume. In June 2021 the State of Nevada, which includes the major events venues in Las Vegas, decided to allow physical tradeshows to resume from the 1st July 2021. Arguably this marked the apogee of Hopin's fortunes and the seeds of its decline.

Series D - $471m at a valuation of $7.66bn: Hopin raised a further $471m in July 2021. At the completion of this Series D Hopin had raised a total of $1.16bn and had a post money valuation of $7.66bn at c77x Hopin's annualised revenue of c$100m.

By mid-2021 Hopin's $7.66bn valuation meant it was being valued at more than the Events business of Informa, the largest global physical exhibitions business with c300 major show franchises around the world.

Informa Group had a market capitalisation of £7.3bn (c$8.7bn) in July 2021. The group had 2019 revenue/EBITDA of £2.9bn/£1.02bn. Informa was not just an Events business. It owned the world's fourth largest academic publishing business, Taylor& Francis and a subscription based B2B intelligence businesses that would subsequently be sold for a total of £2.5bn.

Informa's market leading Events business had 2019 sales/EBITDA of £1726m/£540m with a margin of 31%. In mid-2021 independent broker research put the implied valuation of Informa Events at c£5bn equivalent to c2.9x sales and 9.25x 2019 EBITDA.

Even after the Covid induced ravages of 2020, Informa Events produced revenue/EBITDA of £648m/£-26m implying a forward revenue multiple at the low point of its fortunes of 7.7x versus the 77x of Hopin.

Hopin - $1.16bn raised and a peak valuation of $7.7bn

		Amount raised $m	Raised to date $m	Pre Money Valuation $m	Post Money Valuation $m	Led by
Oct-19	Seed	0.3	0.3	2.8	3.1	-
Feb-20	Seed	6.5	6.8	33.5	40.1	Accel
Aug-20	Series A	41.1	48	208.5	250	IVP
Dec-20	Series B	230	278	1250	1480	IVP/Tiger Global
Mar-21	Series C	414	692	5390	5800	Andreessen Horowitz/General Catalyst
Jul-21	Series D	471	1160	7190	7660	Arena/Altimeter

Source: Pitchbook

The assumption amongst investors and commentators was that the rise of Zoom and virtual meetings would be complemented by the rise of virtual events and that this shift would be sustained post Covid in a permanent change of habits. The concept tied into travel disruption, the shift to working from home as well as the environmental *'Flygskam'* (reluctance to fly for environmental reasons) movement.

The traditional events industry responded to lockdowns by switching to hybrid/ physical shows, where physical shows were possible, and using their own virtual show infrastructure to maintain the presence of their franchises where these were not – even though Informa and others observed that the revenue potential of pure virtual shows was relatively low for all but the biggest franchise events. The Exhibition industry began to talk of a future in which physical shows would return but continue with a hybrid element even post Covid.

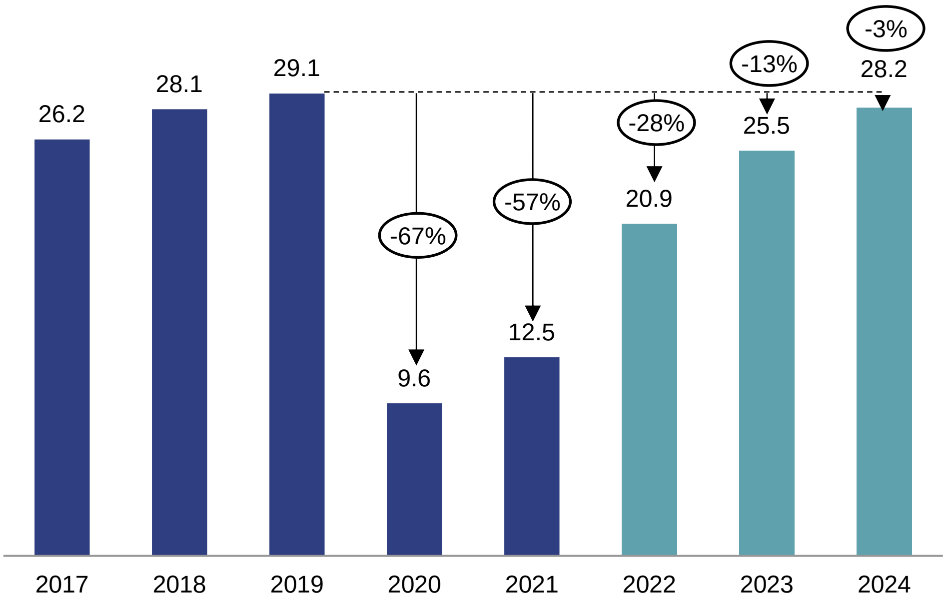
Virtual events – 'Where's the bar?' Pre Covid physical exhibitions companies had experimented extensively with virtual events. They had some success with digital tools that allow exhibitors and customers to maintain links pre and post-show. Attempts to develop virtual exhibitions franchises (UBM was a big player in this area) were though largely unsuccessful and the industry had concluded that the commitment to a single physical venue at a single time with face-to-face interaction was key to the success of shows. Indeed the response of experienced industry professionals was that the problem with virtual events was simply '*at the end of the day there's no bar'.*

The core function of a physical trade show is to gather industry participants together on an annual basis. These events act as an opportunity to meet customers, colleagues and counterparts face to face, to launch new products, to sell to customers and to get a barometer on industry developments. Exhibitions are also a useful tool to break into new markets and establish a foothold presence. For the participants they are enjoyable, with the shows of humdrum industries taking place in glamorous locations (Las Vegas, the French Riviera, New York, Miami, London etc) and are an annual event to be anticipated. The return on show investment is typically strong for exhibitors. Throughout the pandemic, physical exhibition companies reported that demand to return to tradeshows, once they resumed, was strong, that exhibitors would roll over their deposits on show postponements and that show attendance in areas, like China, where restrictions were lifted were (ex the absence of international visitors) similar to pre pandemic levels.

H2 2021 – physical shows return: Hopin's July 2021 $471m fundraise, valuing the business at almost $7.7bn post money and bringing the total raised since February 2020 to $1.16bn, was its last. Shortly beforehand physical tradeshows in the United States had resumed and they quickly gathered pace. UK trade shows started up again in October 2021 and events in Europe in early 2022. Revenues in the global physical show industry made a sharp recovery in 2022 – although it still traded well short of 2019 levels.

Sharp 2022 recovery in the global trade show and Exhibitions market

Global* market size forecasts, 2017-2024, $bn



Source: Globex 2022 by AMR International

Hopin reached a peak staff level of 1150 employees at the end of 2021. The business had grown very fast and raised a lot of money. Talking on the Twenty Minute VC podcast in mid-2021 founder Jonny Boufarhat spoke of his reluctance to have investors closely supervising the company's financial progress *"I don't want you overlooking, over controlling, being able to ask for information whenever you want it, bothering our VP of Finance who is busy with an acquisition and three other things while we're scaling at super-fast speed."*

Hopin Events - 15,000 per month in November 2020, 500 per month in April 2022. The lifting of lockdown restrictions and the return to physical shows saw Hopin's position rapidly unravel. By April 2022 the number of virtual events listed on Hopin's Explore platform fell to fewer than 500 from the 15,000 plus per month recorded in November 2020 when the Covid lockdowns were in full swing.

The company responded with three rounds of job cuts. In February 2022 the company revealed it was laying off 12% of its staff, 138 employees, ostensibly to "*solve overlaps and duplications that crept into the business."*

Hopin instituted a hiring freeze and a reduction in marketing spend but in July 2022 Hopin again reduced the headcount, this time by 242 people or almost a third of the remaining total, saying it was "*necessary to simplify our events business and supporting operations to build a profitable and sustainable company."*

The feeling that this might be to preserve runway was reinforced with a third round of layoffs in November 2022, this time of another 17% of the staff. Hopin talked about the need from late 2021 *"to scale down some parts of the* *business, become cash flow positive, and maintain our strong balance sheet, keeping Hopin grounded in a well-capitalised position"*" and of transforming from "*a one product company to a multiproduct suite*."

In March 2023 Hopin retired the Boomset brand and product platform.

August 2023 – Sale of the core business: At the start of August 2023, Hopin announced the sale of its *'flagship'* Events and session product lines, effectively the core virtual events business, brands and technology, to US group RingCentral. The terms of the acquisition by the $4bn market cap US business were revealed in RingCentral's most recent quarterly results to be c$15m upfront with a $35m contingent consideration, modest in the context of the $1.16bn raised by Hopin.

On July 31, 2023, the Company completed its purchase of certain technology assets and customer relationships from Hopin, Inc. ('Hopin'), a virtual events platform for an upfront purchase consideration of $15 million and an additional consideration of up to $35 million (contingent consideration) based on the achievement of specified performance targets.

Hopin will continue in a reduced form with a new 'community' product, Superwave planned. The core of the business will now be based around the StreamYard video platform acquired in 2021. The company has undisclosed cash balances. Founder Jonny Boufarhat stepped down as Hopin CEO at the time of the sale but will remain on the board of the stub business.

He observes that *"Looking ahead, Hopin maintains its strong balance sheet, millions of users across our portfolio of products and profitability."*

Timeline	Europe's fastest growing start up of all time
Oct-19	First seed round raising $0.3m
Jan-20	Hopin has 6 employees
Feb-20	Second seed round raises $6.5m - business valued at $33.5m post money
	Hopin - cites zero revenue at this stage
Jan-20	First physical tradeshows in China / SE Asia postponed on Covid fears
Mar-20	Events companies postpone most US/Europe physical shows in H1
Mar-20	Number of attendees on Hopin hosted events - 16,000
May-20	Number of attendees on Hopin hosted events - 175,000
Jul-20	China shows resume
Aug-20	Series A raises $41m - valued at $250m post money
Nov-20	Hopin has 200 employees in 38 countries
Dec-20	Series B raises $230m - valued at $1.48bn post money
	Hopin cites $20m ARR and profitable
Jan-21	Hopin acquires streaming business StreamYard for $250m in cash/shares
	StreamYard has c$27m ARR,combined ARR $65m (Hopin $38m)
Mar-21	Series C raises $414m - valued at $5.8bn post money
	Hopin cites $70m ARR
	LinkedIn becomes a shareholder
	Company intends 'on being operationally IPO-ready next year.'
Mar-21	Acquires Streamable (video hosting site) and Jamm (video collaboration site)
Jun-21	Acquires online events solutions specialist Boomset
	Hopin at 660 employees, 45 countries, 10,000 organisers using platform
Jun-21	FT reports Hopin founder, Johnny Boufahart, sold 17% stake for c£100m
Jun-21	Las Vegas based tradeshows resume
Jul-21	Series D raises $471m - Valued at $7.66bn post money
Oct-21	UK trade shows resume
Feb-22	Hopin cuts 138 employees, 12% of its staff
	to “solve overlaps and duplications that crept into the business"
Aprii 22	Events in Europe resume
Jul-22	Hopin lays off 242 staff - 29% of the total
Sep-22	China tradeshows again postponed due to Covid fears
Nov-22	Third round of lay offs - further 17% of staff
	'to scale down some parts of the business, become cash flow positive' “
Q1 23	China tradeshows resume
Mar-23	Boomset brand and platform retired
Aug-23	Hopin sells its events and session product line to RingCentral.
	Johnny Boufarhat steps down as CEO
	Business to be rebranded “RingCentral Events” and “RingCentral Sessions.”

Source: Rothschild & Co; Pitchbook

The challenges facing venture capitalists

After a couple of tough years a lot of attention is being focused on the outlook for venture capital funds. The fallout from the heady heights of 2021 has meant a sharp reduction in value for many private companies, limited opportunities for exits and liquidity issues for limited partners.

A number of developments have highlighted the challenges faced by venture capital firms. In late July Sequoia Capital announced that it had reduced the size of two of its funds, both of which had been launched in February 2022. Its ecosystem fund is reported (WSJ) to have been halved in size, from $900m to $450m. Its crypto fund has been reduced in size by two thirds, from $585m to $200m. A Sequoia spokesperson commented that *“We made these changes to sharpen our focus on seed-stage opportunities and to provide liquidity to our limited partners.”*

Venture capital – the hunt for acceptable returns: A *‘venture rate of return’* is commonly considered to be c12% pa (maybe more in a period of high interest rates). On that basis a 10 year fund would need to return three times the initial investment.

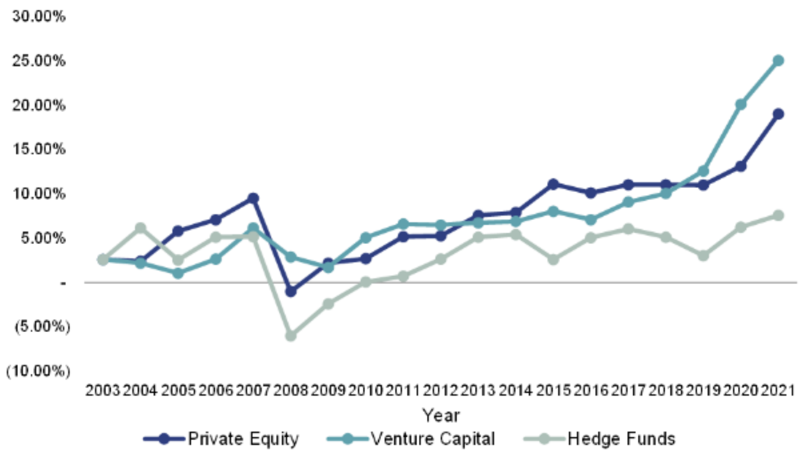
Startups globally raised $681bn in 2021 and $445bn in 2022 (source Crunchbase), more than $1 trillion over two years. These numbers are unusually high. 2020, itself a strong year, saw $342bn raised – just half the level of 2021.

A 3x return on the money raised in 2021/22 would mean the VC industry would have to return over $3 trillion, a pretty demanding *'acceptable return'* target.

Venture capital funding is typically not viewed as long-term money. Venture funds step in at an early stage of a company's development when other sources of funds (bank loans, institutional investment) are usually not available. The venture capitalist supports the company, and if it is successful, looks to turn it quickly, either in an IPO where the funding is taken up by institutions, or through an exit via M&A.

As the chart shows, in the run up to 2022 the venture capital business performed well. Despite the step up in the annual amounts invested, venture capital outperformed private equity and hedge funds in the period 2003-2021.

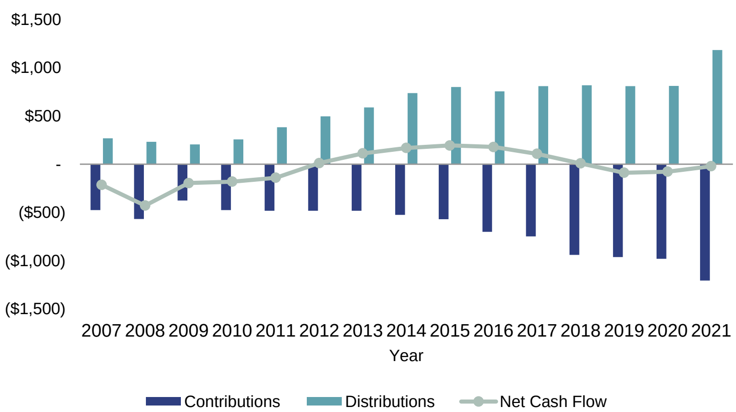
Average IRR by Fund Type



Source: Pitchbook

As a result, even as the scale of distributions grew, LPs kept reinvesting back into private funds.

Private capital funds cash flows ($B)

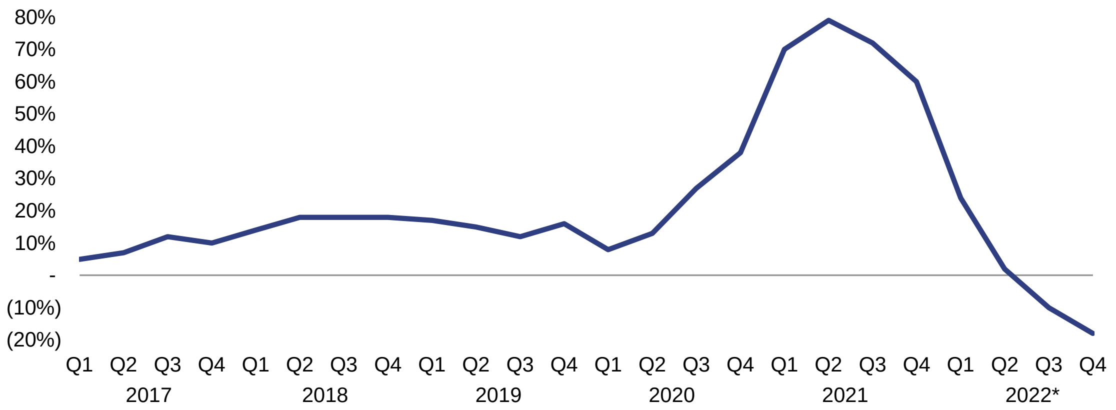


Source: Pitchbook

This appears to have contributed to a type of 'grade inflation' in the venture capital markets as valuations ballooned in 2021. This is reflected in the familiar statistics around unicorns. By mid-2022 there were 1,112 private companies valued at $1bn with a combined valuation of $3.7 trillion. Of these 520 were established in 2021 alone.

In 2022 and 2023, as interest rates have risen, returns have fallen in venture capital and the funding available from LPs has reduced. The more recent returns have been less attractive. Pitchbook calculates that one year IRRs are negative for US VC for the first time since 2016. The closed IPO window has made exits more difficult, hitting the source of funding available from LPs to be reinvested.

One-year IRRs negative for first time since 2016
US VC rolling one-year IRRs



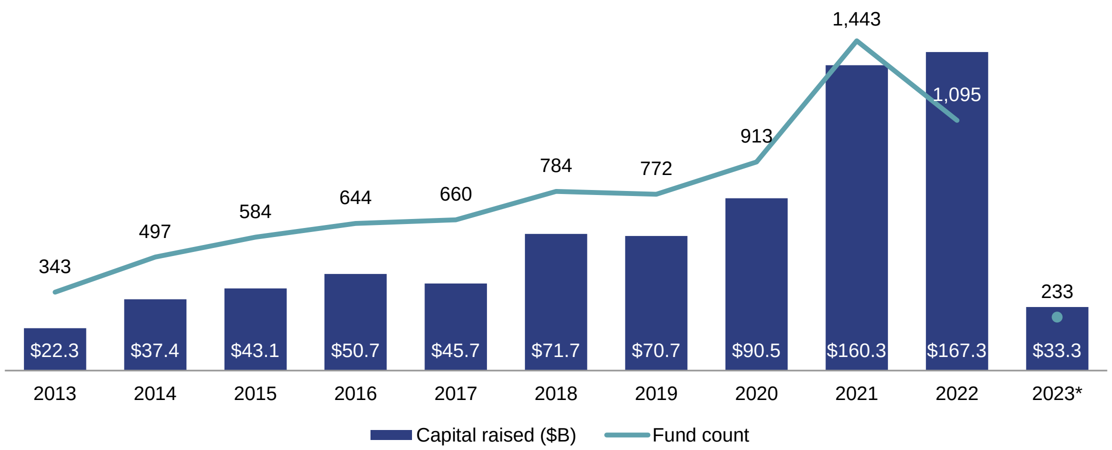
Source: Pitchbook

The FT reported in mid-June that Insight Partners had reduced its target for its 13th fund from $20bn to $15bn. Citing a *'great reset'* in technology valuations it observed that it was likely to slow down its pace of investment. A similar picture has been seen at Tiger Global which closed its 16th private equity fund at $2.7bn, well short of its initial $6bn target.

Total venture funding raised in 2021/22 was $160bn/$167bn. By contrast, according to Pitchbook, US venture funds raised $33bn in H1 2023.

Pitchbook meanwhile calculates the US VC dry powder figure at $280bn. Of this it estimates that 60%, $170bn, is concentrated in mega-funds ($500m plus in commitments). These are just the type of funds which have slowed the pace of their investments.

US VC Capital raised



Source: Pitchbook

Within the venture industry itself the trend appears to be that the larger firms are taking up the available funding at the expense of mid-sized firms. Larger funds have inherent advantages of scale giving them greater access to companies, more resources to support them and a greater chance of seeing and being invited on to the more attractive deals.

The more difficult environment has also seen funds fall back on to their areas of relative strength. Thus Y Combinator has exited its late stage fund to focus on its expertise in early stage deals. 'Opportunity' funds have become less popular. Omers Ventures, the venture arm of the Ontario Municipal Employees Retirement System, is withdrawing from Europe where it established a $332m fund in 2019, deciding instead to focus on North America.

Headcount reductions in VC firms have become more common with announcements of job reductions having been made in recent months by both larger firms like Sequoia, Y Combinator and Global Founders Capital (the VC arm of Rocket Internet) and smaller firms like the fintech oriented Anthemis Group and Backstage Capital.

For the moment the paucity of available exit routes has meant that GPs have typically been obliged to hold investments for longer than they might have intended. Continuation vehicles offer one route to extend the holding period for the portfolio of a fund nearing the end of its lifespan. Other non- conventional options exist. These include the use of specialised loans, like NAV loans. Private Equity International reports that this was a route taken by Carlyle Group when it established a €1.25bn facility on its fifth European buyout fund in order to make accelerated distributions back to its LPs. It reports that other groups such as KKR and Hg are active in using these instruments.

A report by Capstone Partners suggest that lower distributions, rather than macroeconomic factors or any other effects, are the key influence on LP allocations.

So what chance of the logjam shifting? In the next section we look again at the stirrings of the IPO market. Life could begin to change very fast.

Sandals and Semis – The IPO market could surprise on the upside

Shares have performed, interest rates are peaking, inflation is falling, a soft economic landing is on the way, strategists are upgrading their year end market targets, recent IPOs have performed well.

A shot in the arm: Recent weeks have seen a sharp pick up in the incidence of IPOs. The conditions for a revival in IPO activity are taking shape.

Global equity markets have performed strongly in the first half of 2023. NASDAQ has been the star performer, up 32% in the first six months of 2023. Overall global equities were up 14% in H1.

Market volatility has reduced. Earnings forecasts for public companies have been resilient.

Inflation is now in retreat and the market sees the peak of the interest rate cycle even if rates are now seen as likely to remain higher for longer.

In July the IMF raised its 2023 global growth forecast for 2023 by 20bps to 3.2%, citing that there is now less danger of global growth dropping below 2%. The IMF thinks that prospects of a soft US economic landing have improved.

The strong first half performance by equities and the prospect of a soft economic landing have led to a rush of new higher year end forecasts from equity strategists. In recent weeks year end S&P 500 targets have been raised by Goldman Sachs (S&P 500 4,500 from 4,000), Bank of America (4,300 from 4,100), Oppenheimer (4,900 from 4,400) RBC (4,250 from 4,100), Credit Suisse (4,700 from 4,050), Citi (4,600 from 4,000, and 5,000 by end 2024). The current level of the S&P is c4,500. Most of these forecasts don't offer much upside. The key is the directional change in sentiment.

At the end of H1 2023 there were a series of reports charting the low level of activity in the IPO market. Thus the Association for Financial Markets in Europe (AFME) issued a report citing that companies raised just €2.4bn in Europe via IPOs in H1 2023, the lowest figure since 2009, which was just after the global financial crisis. According to Dealogic the US saw IPOs raise $11.5bn in H1 2023, in this case the lowest figure by value and volume since 2015.

Even as these reports were being published, the stirrings of a revival in the IPO market were underway. There has been a flurry of IPOs in the last couple of months.

In Europe the $2bn IPO of Hidroelectrica, Romania's largest ever IPO (and one on which Rothschild &Co advised) took place in early July. It was swiftly followed by the €605m carve-out IPO of thyssenkrupp nucera AG in Germany (again advised by Rothschild & Co). The supposedly moribund UK market saw fintech CAB Payments raise £300m in early July.

The US has led this revival of IPO activity. Kenvue, the consumer arm of Johnson & Johnson had an upsized $3.8bn IPO offering in May. Atmus Filtration raised $275m, the shares being placed at $19.5 and opening at $21.5. US restaurant chain Cava raised $318m in an NYSE IPO at the start of June. At the end of June, Savers Value Village, a thrift store operator, raised $400m; Fidelis Insurance Group raised $210m and Kodiak Gas Services raised $256m in their IPOs.

In early July, Oddity Tech, a beauty and wellness company with an AI angle, raised $424m in an IPO priced at $35 per share, above the previously announced $32-34 range. Continuing the recent run of strong performances by new issues it closed its first day at $47.5 per share with a $2.7bn market cap. Apogee Therapeutics raised $300m in its NYSE listing priced at the top end of its $15-17 range.

Unsurprisingly the seasonal quiet period of August has seen the pace of new listings reduce. September though could see a decisive return to IPO action.

Semiconductors… The IPO of SoftBank owned Arm Ltd may take place as early as September according to reports in the FT and elsewhere. Bloomberg quotes a source as saying that the roadshow is scheduled to start in the first week of September, with pricing for the IPO the following week. Press reports have suggested that the IPO could look to raise c$8bn-$10bn.

Without confirming a date, SoftBank's CFO stated at the company's H1 earnings call in early August that that preparations for the IPO were going *'very smoothly'.*

Recent press reports suggest that ARM owner SoftBank plans to bring in NVIDIA as an anchor investor to help ease the passage of the IPO. NVIDIA was, of course planning to buy ARM before the deal was blocked by regulators. Japan's Nikkei newspaper has separately reported that Apple, Samsung and Intel plan to become shareholders in the IPO owning a *'few percent'* each. Amazon is also said to have been approached. The list of industrial supporters is a demonstration that Arm is likely to present itself as a beneficiary of the generative AI wave that has so benefitted big tech valuations in recent months. In its Q1 presentation on the progress of Arm, SoftBank asserted that ***'AI on Arm is Everywhere'.*** It also highlighted NVIDIA's Isambard 3 Supercomputer announced in May 2023 which will feature Arm based NVIDIA Grace CPU 'superchips'.

At its most recent Q1 results SoftBank stated Arm's valuation to be $45.2bn at the end of June. Bloomberg reports that Arm may be targeting a valuation of between $60bn and $80bn. The FT reports sources close to NVIDIA suggesting it favours an investment at a valuation closer to $35bn-$40bn.

Valuation may prove a sticking point. Arm's 2022 sales were $2.82bn, up 6% on the $2665m of 2021. As reported by SoftBank Q1 23 sales (end June) fell yoy by 11% from $719 to $641m , a figure also beneath the Q1 2021 result of $675m.

…Sandals: Also likely to list in September is the L Catterton owned Birkenstock. The German sandal maker, recently featured in *'Barbie'*, could be valued at $8bn-$10bn according to reports in the FT and elsewhere. L Catterton, which is backed by LVMH, was also behind the recent IPO of Oddity.

This sets the scene for a return to an active IPO market. There will still be challenges – in particular, as we have seen, around valuation. Given the vicissitudes faced in public markets since 2021 investors will expect IPOs to come at more modest valuations with the market more circumspect about the level of premium it is willing to pay for growth. Owners of businesses looking to exit need to measure their desire to access liquidity and monetise assets after a long hiatus in the IPO market with the potential need, initially at least, to accept a lower valuation.

If, however, the Arm and Birkenstock IPOs go ahead, achieve reasonable valuations and trade decently in the aftermath, then there appear to be few reasons for the IPO market not to broaden out. There has been a hiatus in the market for well over 18 months, there is a backlog of companies waiting to IPO and in many cases (Stripe etc) some substantial valuation revisions have already been made by their owners.

SoftBank – Recovery in the Vision Fund

In its Q1 results, to the end of June 2023, the SoftBank Vision funds returned to profitability for the first time in six quarters

SoftBank reported its Q1 results to the end of June 2023 at the start of August. The most notable factor was that the SoftBank Vision Funds (Vision Funds 1 and 2 plus the LatAm funds) returned a quarterly profit at $975m. This was the first quarterly profit since Q3 FY21 (December 2021) and the best result since Q1 FY21 (June 2021).

The c$1bn positive quarterly result split as a $0.9bn gain in SVF1 and a $0.3bn gain in the LatAm funds offset partially by a $0.3bn loss in the SVF2 funds. These latter funds did more of their investment at the peak of the VC market in 2020/21.

The business had seen five consecutive quarterly losses peaking in Q4 21/Q1 22 at losses of $25.6bn and $22.7bn respectively.

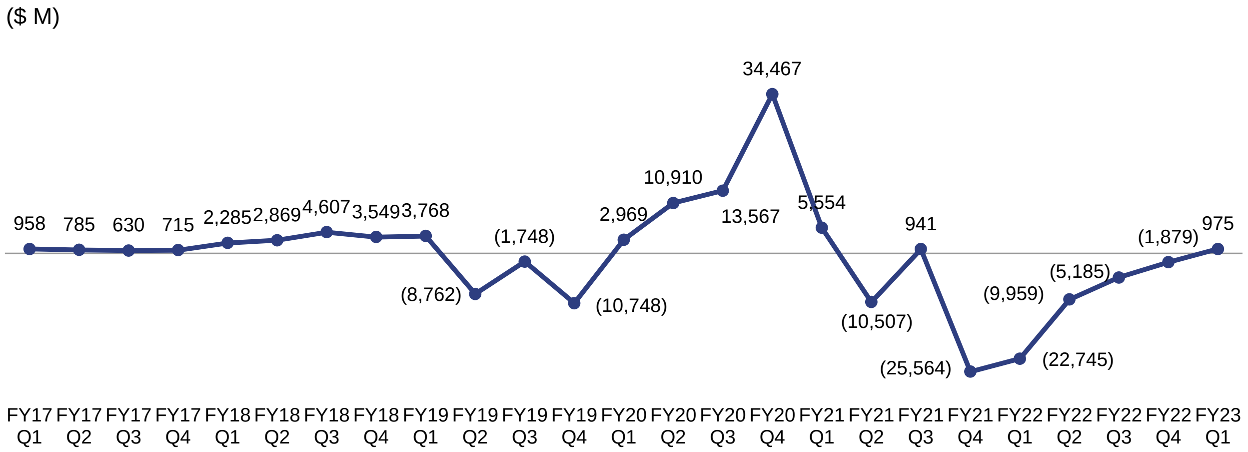
The cumulative loss on investments in these funds now stands at $7.5bn. The peak gain was $66.4bn in Q1 FY21.

SoftBank had previously talked about mixing *'Offense and Defense'* in 2023 having largely concentrated on *'Defense'* in 2022. The tone from SoftBank has now become more bullish with the company talking about switching to *'Offense mode'*. New investments in Q1 amounted to $0.9bn. Quarterly investment had not exceeded more than $0.4bn in each of the three preceding quarters.

> *"Based on this trend we also like to make a good balance between gas and brakes for resuming investment activities..... We are carefully and slowly emerging back to investment activity. The investments that we have done so far has been selectively considered, and at the same time, keeping focusing on the AI trend."*
>
> Yoshimitsu Goto,SoftBank CFO

SoftBank management reiterated its enthusiasm for artificial intelligence as an investment theme, both generative AI and the associated components of the market (Machine Learning, Expert Systems, Natural language processing and computer vision). SoftBank highlighted three investments it has made in automated logistics that leverage AI – in Symbiotic, Berkshire Grey and Teleexistence.

SoftBank – Vision Funds return to profit in Q1 2023 (end June) – first time in six quarters



Source: SoftBank

Markets – Gains continue

The H1 performance of the NASDAQ Composite, up 32% , was its best half year period since 1999. The index has continued to edge forward, up 34% to the 8th August. The tech focused NASDAQ 100 has stalled, unchanged since the start of July, albeit up 40% ytd. The 'special rebalance' of the NASDAQ 100 which took place on July 24 and was designed to lower the weight of the seven biggest stocks, may have checked the progress.

The S&P 500 was up 16% in H1 and is now up 18% ytd. The STOXX 600 Europe and FTSE 100 are both flat since the end of June leaving them up 8% and flat respectively ytd.

The Refinitiv Venture Capital Index, which seeks to monitor the real time performance of the VC industry and whose performance is partly driven by the moves in public markets and particularly tech heavy indices like NASDAQ, is up 31% ytd having been up 29% in H1.

The inflation news has been more positive. The fall in US headline inflation in June to 3% was greeted as a genuinely good number. The figure edged up to 3.2% in July, although this has been treated as the consequence of a ‘soft comp’ in July 2022 rather than representing an underlying increase in inflation.

The Fed, having held rates in its previous meeting, reverted to a rate increase at its July 24 meeting, lifting rates by 25bps to 5.25%-5.5%. The market though does not expect another rise at the next Fed meeting on September 19-20.

Some influential figures are arguing that the peak of rates may already have been seen. New York Fed President John Williams, who is on the Fed’s rate setting committee, gave an interview at the start of August suggesting that the New York Fed’s forecasts indicate inflation being at just 2.5% at the end of the year, close to the Fed’s 2% target. He observed *“I think we are pretty close to what a peak rate would be.”* He also opened up the possibility of lowering rates in early 2024, dependent on continued progress in the economic data.

Another member of the FOMC committee, Philadelphia Fed President Patrick Harker, observed in an early August interview that:
“Absent any alarming new data between now and mid-September, I believe we may be at the point where we can be patient and hold rates steady and let the monetary policy actions we have taken do their work.”

Mr Harker though does not see an early fall in interest rates,
“Allow me to be clear about one thing, however. Should we be at that point where we can hold steady, we will need to be there for a while. The pandemic taught us to never say never, but I do not foresee any likely circumstance for an immediate easing of the policy rate.”

The surprise good news on inflation has been in the UK. The June CPI figure of 7.9% was down unexpectedly sharply from 8.7% in May (the market had expected 8.2%) and the recent peak of 11.1%. Nevertheless the Bank of England again raised rates in early August, albeit by just 25bps to 5.25%. The BoE expects inflation to fall to c5% by the end of the year with its target of 2% only being reached by early 2025.

Eurozone inflation was 5.3% in July down from 5.5% in June and 6.1% in May. Core inflation, ex energy and food prices, was unchanged at 5.5%. The July numbers were seen as moderately disappointing and were followed by the ECB raising rates by a further 25bps to 3.75%. The ECB did raise the possibility of a potential pause in rate hikes in September. Its president, Christine Lagarde, said the ECB has:

“an open mind as to what the decisions will be in September and subsequent meetings. There is a possibility of a hike, there is a possibility of a pause.”

Market expectations of peak rates now appear to be at 5.5% for the US, the UK is at 5.9% (down from above 6%) and the Eurozone at 3.9%.

Rothschild & Co strategist Kevin Gardiner summarises the current key drivers of the market in this graphic:

GROWTH *Neutral*	***Economies proving resilient*** Banking risks have faded further, but business surveys continue to weaken as monetary tightening makes itself felt – with more to come (see below). However, the hard data remains upbeat, and support is on the way in the shape of lower energy prices, particularly in Europe. Technical recession is possible, but a more significant downturn still seems unlikely
INFLATION *Neutral*	***Disinflation remains patchy*** Headline rates are still falling, and will do so more sharply again during H2, but core rates are proving stubborn – particularly in the euro area and the UK. Nonetheless, wages remain remarkably subdued in the circumstances – a point recently made by the BIS too – and the chances of a prolonged 'seventies-style episode still look to us to be slim
POLICY *Negative*	***Interest rates: nearly there (again)*** Central banks realised in 2022 that their credibility was at stake, and acted decisively to raise nominal interest rates. Policy rates in the US and UK are now above "normal", but the tightening cycle is still not quite done (the Bank of England likely has furthest still to go). Moreover, with core inflation sticky, we doubt that rates will fall as quickly as money markets expect: we expect a more plateau-shaped profile extending into 2024
GEOPOLITICS *Negative*	***Geopolitical risk: signs of stability?*** We're thinking here not about the situation in Ukraine, where it would be premature to see the unrest within Russia's armed forces as making peace any more likely, but instead the modest cooling of temperature around Taiwan. High-level discussions between the US and China suggests that both sides recognise the importance of stepping back from the brink of mutually assured economic destruction (or worse). President Xi is aware of China's best interests, and we think he will remain patient
VALUATIONS *Neutral*	***Valuations remain balanced*** Despite higher prices, stock market valuations remain unremarkable: long-term metrics remain close to trend, and the near-term outlook for profitability has improved as banking risk has faded and earnings expectations have stabilised. Plausible projected returns remain ahead of likely inflation (even though the latter may stay more elevated than it used to be). US and UK bonds are more reasonably valued than for many years
CANARIES / RISKS *Neutral*	***Diversification remains important*** It may have faded quickly, but we would not be surprised if banking risk were to revive: with interest rates at levels not seen for many years, the risk of financial accidents surely remains elevated. The good news is that traded options have become a little cheaper of late, even though the free 'Fed put' has been withdrawn, and that bond-based diversification is more affordable (and credible). We remain unconvinced that cryptocurrencies offer anything here

Source: Rothschild & Co

Past performance is not a reliable indicator of future performance and the value of investments and the income from them can fall as well as rise.

This document does not constitute as personal recommendation or an offer or invitation to buy or sell securities of any other banking or investment product. Correct as of 1st August 2023.

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. There is a sense that well placed companies continue to defer raises in 2023

"General environment is slow…Deal flow getting a bit better but generally slow."

(iii) The appetite of some investors appears to be increasing – perhaps helped by the valuation reset in private markets and the revival in public markets, particularly NASDAQ

"We took a year off investments in May 2022 to May 2023… now trying to 'make things happen'"

(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

2022 saw sharp falls in the public markets on the back of a combination of global inflation, rising interest rates, and increased geopolitical risk. By mid-2023 inflation is coming down and interest rates appear to be close to their peak. There has been a substantial rally on NASDAQ, led by the major tech stocks, a rally more palely reflected in other markets. The Refinitiv Venture Capital Index, which seeks to monitor the real time performance of the venture capital industry, fell 55% in 2022. YTD to early August 2023 it is up 31%, meaning the total fall since the start of 2022 is now 45%. 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 reductions in some high-profile VC rounds

▪ There is substantial dry powder in the VC industry. This though appears to be prioritised to support 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 artificial intelligence, fintech, climate tech and software. Certain investors remain very active in the space with substantial funds to deploy

▪ 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. 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

▪ 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 that receptive

▪It seems likely that the more difficult conditions for fundraising, and the lack of a clear path in some cases to early cash positive status, will mean a flurry of venture capital backed businesses looking to sell or merge their businesses

▪ 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.

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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