Rothschild & Co
Global Advisory

Growth Equity Update

April 2024 – Edition 25

- ***Global VC fund raising at $30.4bn in Q1:*** Pitchbook's Q1 global figure puts VC managers on track to raise just $121bn in 2024, down from the peak of $555bn in 2021 and $188bn in 2023
- ***Expected to remain tough:*** An April Kaufmann Partners survey found most VCs expect investors to decrease exposure to the asset class in 2024. 97% of the 262 respondents believe fundraising will be *'somewhat to extremely challenging'* in 2024
- ***Exits via M&A remain depressed.*** Pitchbook indicates global exit value was $120bn in Q1 2024, the lowest quarter since the $87bn of Q2 2020 (and, prior to that, the $97bn of Q1 2013)
- ***Post the 3.5% US March inflation number, the market now factors in just one/two rate cuts this year*** with the first in September. Nevertheless the S&P 500 fell by just 1% post announcement with a soft landing/ positive corporate earnings the short term market drivers
- ***Animal spirits (1) IPO window open***. YTD 2024 seven US IPOs have raised more than $500m for a total of $5.8bn. In Europe Q1 IPOs raised €4.8bn - the highest value quarter since Q1 2021
- ***Animal spirits (2) European raises up yoy in Q1***: Pitchbook has Q1 2024 venture raises at a total of €16.4bn, up 20% over the €13.7bn of Q1 2023
- ***Animal spirits (3) Mood more optimistic***: The Kaufmann Fellows survey of 262 of its members managing $250bn, indicates 53% of VC managers surveyed expect to allocate more capital and invest in more startups than last year, with only 6% expecting to invest less.

Fund raising difficult for VCs

Post the rise in interest rates and the end of the boom period for venture capital that peaked in November 2021, the raising of new funds by venture capital investors remains tough.

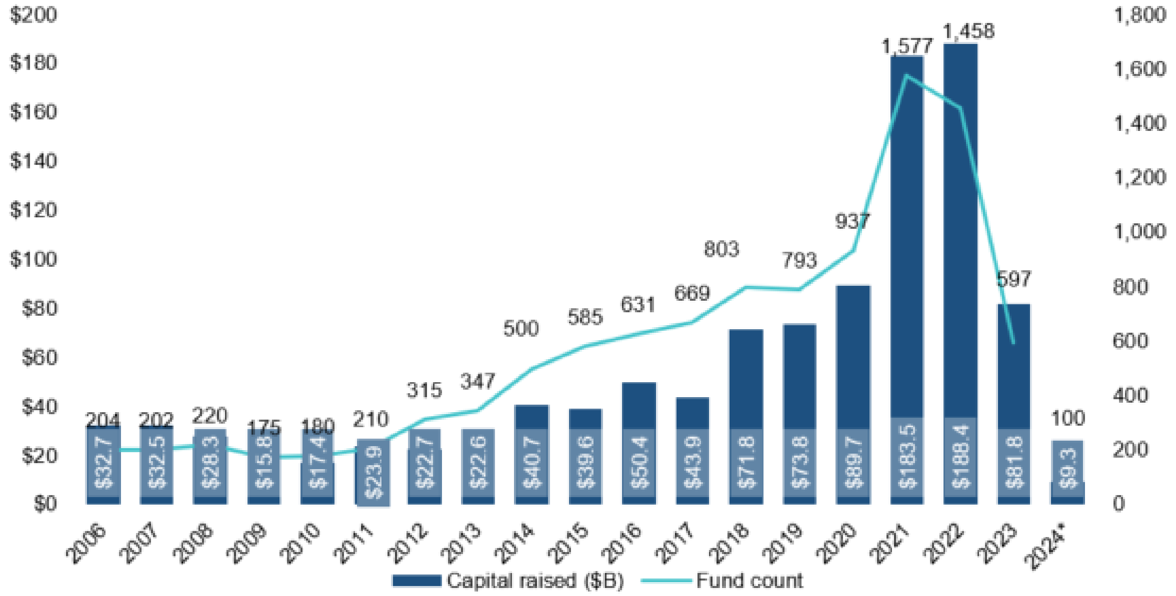
Figures from Pitchbook suggest that venture capital firms globally raised $30.4bn in Q1 2024, a sharp slowdown from 2023. This is a pretty woeful start to the year. As the chart shows, global fundraising by VC firms peaked in 2021 at $555bn before falling away to $329bn in 2022 and (a revised total) of $188bn in 2023. The 2023 total was already the lowest total since 2017. The $30.4bn ytd in 2024 marks a further substantial step down. If sustained at this pace in the next three quarters the year would see just over $121bn raised – on a par with 2015.

Global Venture capital fundraising – 2024 set to be on a par with 2015

Source: Pitchbook

The next chart shows the figures for the US. In both 2021 and 2022 the industry raised over $180bn with 2022, post the peak in the market in November 2021, actually marking the fundraising peak at $188bn, suggesting that a spirit of optimism still prevailed despite the turn in market conditions. The 2023 total was $82bn, still well ahead of any year between 2006 and 2020. The $9.3bn ytd marks a further substantial step down. If sustained at this pace in the next three quarters the year would see just over $37bn raised, the lowest total in more than a decade since 2013's $22bn.

US VC Capital raising – Very slow start to 2024



Source: Pitchbook

And finally here are the figures for Europe. The peak of fundraising was not so high at just €33bn in 2021. This dropped to €19bn in 2023 (57% of the peak level, the US in 2023 was at 43% of peak). The Q1 total is at €4.6bn, suggesting that the outturn in 2024 may be similar to the €19bn of 2023.

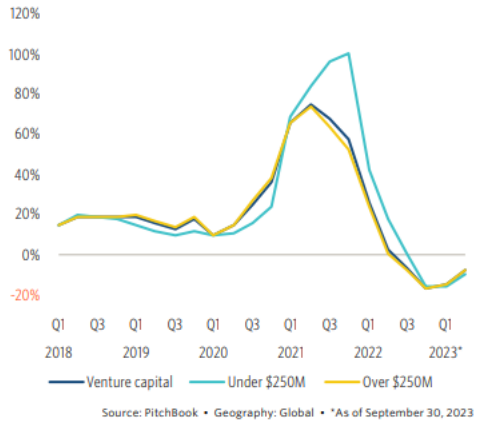
European VC Capital raising – On the same run rate as 2023

Source: Pitchbook

The causes of the venture capital fundraising slow down are familiar. The existence of essentially 'free' money post 2008 as interest rates were sustainedly low drove a boom in the venture and growth equity markets. The flush of money going into the sector and the ostensibly high returns attracted incremental capital from LPs and new types of participants in these markets, like crossover investors. The sharp rise in rates from the start of 2022 changed the return dynamics of the industry and although inflation and interest rates now appear to have peaked there will be no early return to the conditions of free money – interest rates will remain higher for longer.

The returns being made by venture capital funds have deteriorated sharply. Data here lags – below we show the Pitchbook estimates up to the end of Q2 23. The trend though is clear both by size of fund and by geography. By Q2 2023 VC funds had generated negative returns in four consecutive quarters. VC funds dropped 8% for the year ending Q2 2023 although this was an improvement over mid -teens declines in the preceding two quarters. The weak market for exits and the substantial retrenchment of non-traditional and cross over funds has hit returns and venture pricing.

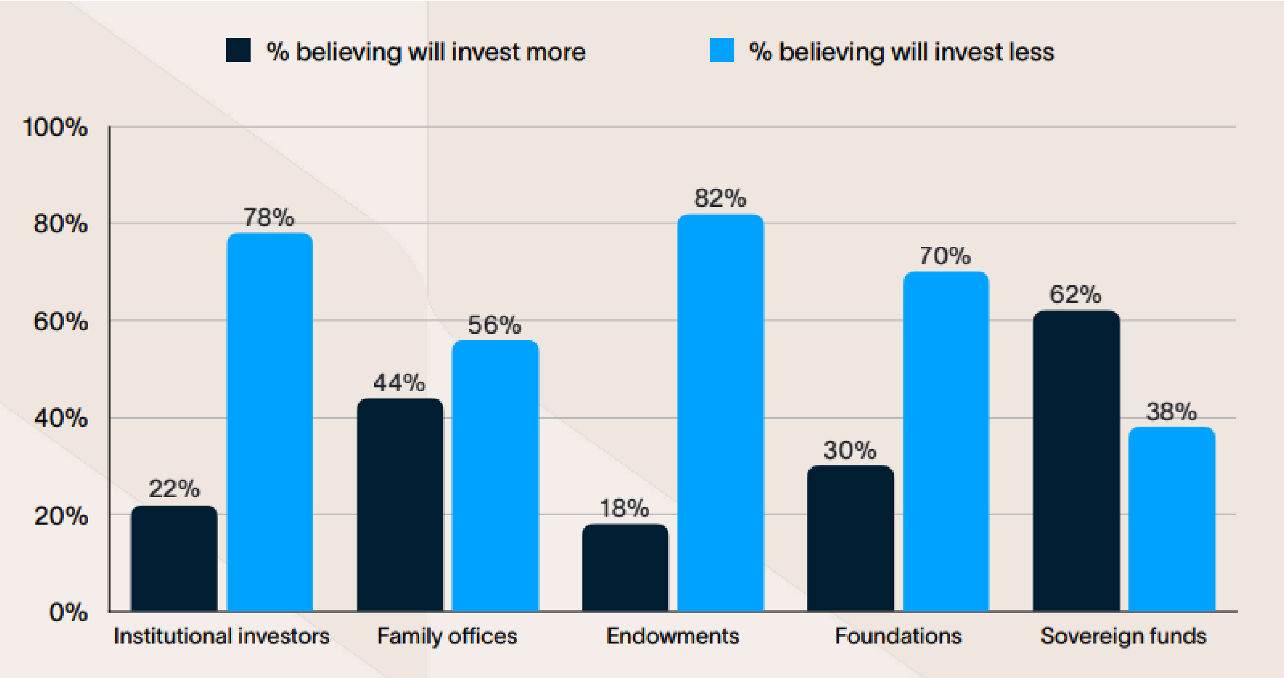
Pitchbook Indices: *VC rolling one year horizon IRRs by size and region*



What does this look like on the ground and is there any prospect of change?

A survey by Kaufmann Fellows conducted in Q4 23/Q1 24 found that most VCs expect institutional investors to decrease exposure to the asset class, particularly endowments and foundations. 97% of the 262 respondents managing $250bn in assets believe that fundraising in this environment will be ***somewhat to extremely*** challenging in 2024.

How do you think LPs will respond to the venture capital asset class in 2024?



Source: Kaufman Fellows survey – April 2024

A critical issue is the sharp slowdown in exits. The weak M&A and IPO market has meant that returns have been worse and that firms are less able to recycle capital. There are stirrings in the IPO market and we have regularly charted these in our Growth Equity updates.

In the meantime the scale of anticipated fundraising is being recalibrated. Large VC firms are still attracting the bulk of the funds going into the industry but are reducing (or failing to raise) the targeted level of new funds.

Thus Tiger Global, at the start of April announced that it had closed its 16th fund, Private Investment Partners 16, having raised $2.2bn in investor commitments. This is roughly a third of the $6bn target it touted to investors when it first announced the fund in 2022. It began the fundraising for this vehicle in October 2022 and by mid-2023 commitments stood at $2bn. Progress since then has clearly been slow and the original $6bn target for the fund has been missed by a substantial distance. By contrast, Tiger's previous fund closed in 2022 with $12.7bn in commitments. Lower investor appetite combined with the greater caution from VC managers when making investments and the associated reining in of capex plans by VC startups all reduce the amount of capital deployed. Pitchbook data for instance shows that Tiger led just three $100m plus fundraising rounds in 2023 versus leading 92 such rounds in 2021.

Other funds have seen similar activity. Insight Partners is reported as cutting the target for its next fund from $20bn to $15bn. In Q1 2023 Founders Fund halved the target for its eighth fund from $1.8bn to $0.9bn.

There are some brighter spots, notably in the Middle East. In late February Qatar's sovereign wealth fund said it would invest $1bn plus in venture capital in the territory and neighbouring states. The venture capital "Fund of Funds" is targeted at producing commercial returns for the fund as well as promoting Qatar's venture capital industry. The capital will be funnelled only to venture capital funds rather than private equity or debt. The aim is also aim to attract international venture capital firms and entrepreneurs to Qatar. QIA Chief Executive Mansoor Ebrahim Al-Mahmoud commented:

"QIA is launching this program to help ensure that innovative businesses can readily access capital and support from VC funds, enabling them to scale operations and expand market presence in Qatar, across the GCC, and ultimately onto the international stage."

By category climate funds continue to be a hot spot for fundraising. The Venture Capital Journal notes that in April 2023 it recorded 22 climate investment vehicles that had recently closed on $5.5bn of new funds. By the start of April 2024 the list of funds had doubled to 44 raising a combined $9.5bn. The largest of the funds was the Innovation & Expansion Fund from Galvanize Climate Solutions which raised just over $1bn in September 2023. Most recently the Berlin based World Fund raised a €300m fund which it describes as the largest ever first fund from a European climate venture firm.

World Fund says that the new capital will enable it to make 25-30 investments into European startups building technologies with the potential to decarbonise entire industries, offering support for early and growth stage disruptors. The fund has seen investment from a number of LPs who have not previously backed first-time VC funds including the UK Environment Agency Pension Fund, Wiltshire Pension Fund and Erste Plavi, as well as BPI France's inaugural investment in a first time fund outside of France. World Fund also raised €50m from the European Investment Fund.

Interestingly World Fund sees itself as producing a partial solution to what it describes as the European *'Series B Valley of Death'* for climate start-ups stating:

"*In Europe today, climate and deeptech startups in their early growth stage often need €30m+ in funding to scale up and for example build that factory they need to create game-changing products. However, until now that capital has often been unavailable, stifling growth and even leading to brilliant companies collapsing. World Fund managing partner, Danijel Višević, has labelled this situation the 'Series B valley of death'. World Fund offers a solution to this problem with this fund, leading financing rounds and reserving significant capital for follow-on investments to help companies in its portfolio overcome this hurdle."*

Climate Tech appears less challenged at the larger end of the funding scale. Sifted estimates that around half of the largest funding rounds in Europe in 2023 were for climate tech companies.

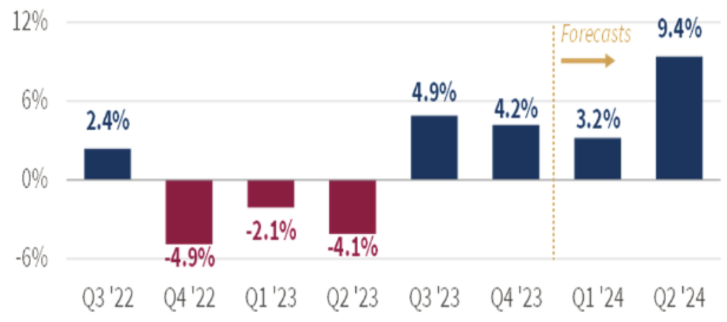
Inflation stubbornly high, yet markets robust

Public markets have seen their momentum stall as market participants have become gloomier about the pace of interest rate cuts given indications that the last vestiges of 2% plus inflationary tendencies are proving difficult to stamp out. In the US an expectation at the start of the year that the Fed might cut interest rates six- seven times in 2024 instead of the advertised three times has entirely swung round after successive months of above expectation inflation figures. Post the announcement that US inflation had risen to 3.5% in March, market expectations now factor in just one to two Fed rate cuts this year with the first not likely to come until September and perhaps not until November.

Despite this the announcement of the March inflation figure saw the S&P 500 fall by just 1% and close just 1.8% below its high at the end of March. Signs of continued robustness in the US economy are being greeted with enthusiasm as it suggests that there may neither be a 'hard' landing or even a 'soft' landing but rather no 'landing' at all. Instead of the expectation of immediate interest rate cuts, a robust economy, the potential positive impact of Goldilocks inflation (neither too hot nor too cold) on company pricing power and margins and the potential positive knock on effects on corporate earnings become the short term driver of markets.

This is illustrated in the next chart which indicates that S&P 500 yoy earnings growth recovered strongly in the second half of 2023 and is expected to strengthen further into the first half of 2024.

S&P 500 earnings growth (% yoy)



Source: Rothschild & Co; Bloomberg

To the 11th April March the NASDAQ composite index is up 10% and the S&P 500 is up 9% ytd, interestingly keeping up with the performance of the tech heavy NASDAQ 100, also up 9%. The Magnificent Seven tech stocks continue firm, up 18%. The STOXX 600 Europe is up 6% and the FTSE 100 is up 3%.

The Refinitiv Venture Capital Index, which seeks to monitor the real time performance of the venture capital industry and whose performance is partly driven by the moves in public markets, and particularly tech heavy indices like NASDAQ, is 5% off its 2024 top, up 14% ytd, having closed 2023 up 56%.

Recapping on interest rate expectations and US inflation we have had two successive disappointing months for US inflation figures. In February inflation rose unexpectedly to 3.2% versus January's figure (and analyst expectations) of 3.1% and post the figures, expectations in the market reduced to *'just'* three interest rate cuts this year in line with the *'dot plot'* projection given by the Fed in December.

The March inflation figure surprised more negatively at 3.5% versus expectations of a 3.4% rise. Core inflation, ex food and energy, remained at 3.8% vs expectations of 3.7%. The Atlanta Fed's index of 'sticky' inflation, a services-heavy weighted basket of items that change price relatively slowly, increased 5% in March after 4% in February.

The response of state officials is that the inflation plan remains broadly on track. President Biden, commenting on the March inflation numbers said that he still expects the Fed to cut rates this year and that the effect of the most recent inflation numbers *'may delay it a month or so'.*

The response from Fed chairman Jay Powell is similar. Commenting on the January and February inflation data he said,

"I think they haven't really changed the overall story, which is that of inflation moving down gradually on a sometimes bumpy road toward 2%. We're not going to overreact to these two months of data, nor are we going to ignore them."

The current level of US interest rates is at 5.25%-5.5%, a 23 year high.

The Eurozone March inflation figure was 2.4% after 2.6% in February and 2.8% in January and was lower than the market's 2.5% expectation. Services inflation remained sticky at 4% for the fifth month in a row while foods and goods prices fell. March's core inflation (ex-energy and food) was 2.9% after 3.1% in February and 3.3% in January.

Economic growth in the EU area remains very sluggish. In its March update the EU revised its 2024 EU GDP growth forecast 0.6% from 0.8%. The expectation at the start of the year was 1.2%.

For the second month in a row the UK's inflation rate was better than expected with the February figure at 3.4% after 4% in January. Market forecasts were for 3.5%. Core inflation, ex food and energy, fell to 4.5%

from 5.1% in January and was also 10bps better than expected. Again services inflation remained stubbornly high at 6.1% in February after 6.5% in January. The March inflation figure is due on the 17th.

The Bank of England's February Monetary Policy Report notes that inflation is expected to fall to the target 2% during Q2 2024, largely due to falls in energy prices yoy, before climbing back to c2.75% by the end of 2024 and averaging c2.3% in the following two years.

What does this mean for the exits market?

Public markets are performing solidly and this has allowed a few of the bolder hearts to sneak through the raised wire of the IPO exit market. Exits via M&A remain at a depressed level. Pitchbook numbers indicate that global exit activity was $119.8bn in Q1 2024. The chart indicates that this is the lowest quarterly total since the $87bn of Q2 2020 and, prior to that, the $97bn of Q1 2013.

<u>Global PE Exit activity – a subdued $119.8bn in Q1 2024</u>

Source: Pitchbook

Looking at annual totals the peak value of exits was $1,687bn globally in 2021. The figure dropped to $774bn in 2022 and $702bn in 2023. At its current run rate it would hit $480bn in 2024 which would be the lowest annual figure since the $462bn of 2012.

IPO markets offer some source of hope to get money flowing round the system once more. In the US 2023 saw just nine IPOs that raised more than $400m, each with the total amount raised by the group at $14.1bn.

Of those, eight saw a day one rise in the share price. The exception was the 13% drop in the Birkenstock share price on day one in early October 2023, which effectively killed off the IPO market for the rest of the year. The weighted average day one share price increase was nevertheless 20%.

By the 8th April 2024 just five of the nine IPOs were still trading up, albeit the weighted gain was a useful 50%. This though is in turn caused by an outsize contribution from Arm Holdings, swept up in AI enthusiasm, with an absolute gain in value of $5.8bn versus the collective gain of $4.25bn. The two big negative contributors are Kenvue and Acelyrin. Kenvue shares are down 9% or $1.35bn since IPO triggered by the consumer health business producing disappointing Q4 2023 numbers, citing a slowdown in its skin health and beauty performance in China. Biotech business Acelyrin has had a more spectacular fall from grace with the biotech announcing a failed trial for HS (a chronic inflammatory skin condition) in September, just four months after its IPO.

Year to date in 2024 there have been seven US IPOs raising more than $400m, for a total of $5.8bn. By the end of March 2023 only one IPO of over $500m (Nextracker Inc raising $638m) had taken place. Of the seven issues 2024 ytd all but one (BrightSpring Health) saw a rising share price on day one with the average weighted day one gain at 27%. The major contributors have been the last two IPOs with Reddit up 129% on day one and Astera Labs up 72%.

To the 8th April six out of the seven IPOs remain in positive territory. Again the exception is BrightSpring Health (down 21%) and again the major contributors are Reddit (gains pared but still up 116% since IPO, and Astera Labs, up 98%. Gains on the other four stocks range between 9% and 44%.

US IPOs raising more than $400m 2024 ytd – up 41% on average

	Symbol	Offer date	Shares (m)	Offer price $	Amount sold ($m)	First day Close $	Change %	Price 8th April 24	Change %
Reddit	RDDT	21-Mar-24	34	22	748	50.4	*129*	47.6	*116*
Astera Labs	ALAB	20-Mar-24	19.8	36	713	62.0	*72*	71.3	*98*
BBB Foods	TBBB	09-Feb-24	33.7	17.5	590	19.1	*9*	23.3	*33*
American Healthcare REIT	AHR	07-Feb-24	56	12	672	13.2	*10*	13.1	*9*
Amer Sports	AS	01-Feb-23	105	13	1,365	13.4	*3*	15.3	*18*
BrightSpring Health	BTSG	26-Jan-24	53.3	13	693	11.0	*-15*	10.2	*-21*
Kaspi.KZ	KSPI	19-Jan-24	11.3	92	1,040	96.0	*4*	132.8	*44*
					5,820		***27***		***41***

Source : Rothschild & Co

2023 US IPOs raising more than $400m– up 50% on average

	Symbol	Offer date	Shares (m)	Offer price $	Amount sold ($m)	First day Close $	Change %	Price 8th April 24	Change %
Birkenstock	BIRK	11-Oct-23	32.3	46	1,486	40.2	*-13*	44.0	*-4*
Klaviyo	KVYO	20-Sep-23	19.2	30	576	32.7	*9*	24.2	*-19*
Instacart	CART	19-Sep-23	22	30	660	33.7	*12*	39.1	*30*
Arm Holdings	ARM	14-Sep-23	95.5	51	4,871	63.6	*25*	124.8	*145*
ODDITY Tech	ODD	19-Jul-23	12.1	35	424	47.5	*36*	37.2	*6*
Savers Value Village	SVV	29-Jun-23	25.6	18	461	22.9	*27*	18.4	*2*
Acelyrin	SLRN	05-May-23	34.5	18	621	23.5	*31*	6.0	*-67*
Kenvue	KVUE	04-May-23	198.7	22	4,371	26.9	*22*	20.1	*-9*
Nextracker Inc	NXT	09-Feb-23	26.6	24	638	30.5	*27*	50.1	*109*
Total					**14,107**		***20***		***50***

Source : Rothschild & Co

In Europe Q1 2024 saw thirteen IPOs raise €4.8bn - the highest quarterly IPO proceeds since Q1 2021. Aftermarket performance has been decent with four of the top five IPOs ending Q1 in positive territory.

These results suggest that the IPO window is open. A key area of debate is how aggressive sponsors can be in terms of pricing with investors still wary and skittish. Nevertheless the overall results are sufficient to suggest that the IPO pipeline should continue to build.

There is unlikely to be a shortage of supply. According to Pitchbook Data the backlog of venture-capital-backed firms waiting for an opportunity to go public is at around 220 companies.

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

<u>The favourable mix of growth and disinflation continues</u>

GROWTH *Positive*	***Economic resilience continues*** Momentum in the biggest economies – the US and China – seems to be carrying into 2024. Forward-looking business surveys appear to be stabilising – even in Europe – and unemployment remains low. We still can't quite believe that all the damage done by higher interest rates has yet surfaced, but with real wages growing again on both sides of the Atlantic we continue to doubt that a major downturn is either necessary or likely
INFLATION *Positive*	***Inflation fades further*** Prices in the major economies have now slowed markedly. Wage growth is falling more gradually – hence the rebound in real wages – but is also heading in the right direction, and the risk of a more stubborn inflationary episode has fallen markedly. We still doubt that a lasting return to earlier pre-pandemic trends is likely – we think inflation rates will likely stick in the 2-4% region for some time – but Team Transient's blushes may be spared
POLICY *Neutral*	***Interest rates: higher for (even) longer*** Central banks belatedly realised their credibility was at stake, and eventually acted decisively to raise policy rates in 2022 and 2023. As inflation has now fallen decisively, the tightening cycle seems to have concluded. With unemployment low, however, there is no rush to cut rates, and the scale of cuts expected by money markets in 2024 has been steadily scaled back. We see cuts as postponed, not cancelled, and expect rates to fall modestly from around mid-year
GEOPOLITICS *Negative*	***Geopolitical risk still elevated*** Grim conflicts continue in Ukraine and the Middle East; China maintains its ongoing non-negotiable claim on Taiwan; the portents for the looming US presidential election are not reassuring (closer to home, the UK election, when formally announced, promises to be a more parochial affair). However, financial markets are impersonal, and history tells us that such geopolitical concerns do not always have a significant economic and financial impact – the business cycle (for example) often matters more. So far at least this has been the case now
VALUATIONS *Neutral*	***Valuations are full but not excessive*** Global stocks have risen to new highs, but valuations are not outlandish, and earnings expectations continue to stabilise around the prospect of ongoing growth in 2024. Meanwhile, bond markets have reversed some of their big year-end rally, and again look reasonably valued (and potentially more useful as diversifiers too)
CANARIES / RISKS *Neutral*	***Low volatility may not last*** Financial risk likely remains elevated after the sharp normalisation of interest rates – some potential casualties include regional US banks, commercial real estate, the private markets, and stock market volatility of late has been remarkably low. But systemic financial risk may be containable – big banks' balance sheets look well capitalised – and portfolio insurance and diversifying assets are not especially expensive

Source: Rothschild & Co

Venture Capital deal activity still strong.

A positive start to the year in Europe

As we have reported in recent Growth Equity Updates, European venture capital raises have started strongly in 2024 with activity levels running well above those in the same period in 2023. Our analysis is derived from recording announcements as they are made, either in company reports or as reported in the press. On our reckoning January European raises were more than double the levels of January 2023, February was flat yoy and March up round 25% yoy.

The 'official' activity numbers from Pitchbook for Q1 bear this out. Pitchbook has Q1 2024 raises at a total of €16.4bn, up 20% over the €13.7bn of Q1 2023. This remains at less than half the peak level of €35.6bn in Q1 2022 but is higher than in any quarter up to the end of 2020 when the surge in VC valuations and activity levels took place.

<u>European Venture Capital Deals – up 20% yoy in Q1 2024</u>

Source: Pitchbook

The biggest European deals in Q1 (those that raised $75m or above) are shown in the next Exhibit.

The largest European raise in the quarter was $570m for ***Travelport***, a retailing platform for travel agencies. Its existing equity holders and lenders invested, led by Elliott Investment Management.

UK neobank ***Monzo*** raised $430m, supported by the venture arms of Alphabet, CapitalG and Google Ventures, as well as by HongShan Capital. The round valued Monzo pre-money at £3.6bn ($4.6 bn).

Picnic, an Amsterdam based online grocery business with an eco-twist (it delivers using electric trolleys) raised $389m. It operates in the Netherlands, France and Germany. Sales (presumably GMV) were €1.25bn in 2023. The Bill & Melinda Gates Foundation and Dutch supermarket, Edeka, led the round.

French EV charging business ***Electra***, where R&Co advised the lead investor PGGM, raised $335m.

Another clean energy deal saw a $330m equity raise from ***H2 Green Steel*** which also involved the company raising $3.9bn in additional debt.

Everphone, a German platform for corporate smartphone and tablet management raised a total of $297m in equity and debt.

German electrolyzer manufacturer, ***Sunfire***, raised a total of $550m with €215m raised in a Series E equity round which included LGT Private Banking, GIC, Ahren Innovation Capital, and Carbon Equity as investors. The company also obtained a term loan of €100m from the European Investment Bank and €200m in grant funding. The company's technology offers a scalable means of producing green hydrogen.

German solar power business ***Enviria*** has 500 commercial and industrial solar projects. It raised $200m from Blackrock which will help fund its pipeline of 2,000 projects with a total capacity of over 2.3 GW.

Aira, the Swedish 'Spotify of heat pumps' raised a $160m Series B led by Altor, Kinnevik and Temasek.

Bending Spoons, the Italian owner of the MeetUp and Evernote apps, raised $155m in a deal led by Durable Capital Partners. It valued the company at $2.55bn.

<u>Biggest European Venture capital raises of Q1 2024</u>

Country	Date	Company	Stage	Amount $m	Valuation $m	Sector	Investors	What it does
UK	Jan-24	Travelport	Funding	570		Marketplace	Elliott Investment Management, Davidson Kempner, Canyon Partners,	Travelport - travel bookings for travel suppliers
Germany	Mar-24	Sunfire	Series E	550		Climate Tech	LGT Private Banking, GIC, Ahren Innovation Capital, Carbon Equity	electrolyzer manufacturer,
UK	Mar-24	Monzo	Equity	430	$5bn (vs $4.5bn)	Fintech	CapitalG,(Alphabet), Google Ventures,HSG (HongShan Capital)	Neo bank
Netherlands	Jan-24	Picnic	Funding	389		Online grocery	Bill & Melinda Gates, Edeka	Eco friendly online supermarket
France	Jan-24	Electra	Equity	335		ClimateTech	PGGM	EV charging stations
Sweden	Jan-24	H2 Green Steel	Equity	330	+3.9bn debt	ClimateTech	Microsoft Climate Innovation Fund, Mubea Siemens Financial Service	hydrogen-powered steel plant
Germany	Jan-24	Everphone	Series D	297	part debt	Telecomms	Capnor and Calista	platform for corporate smartphones and tablets,
Germany	Mar-24	Enviria	Equity	200		Climate Tech	Blackrock	photovoltaic energy solutions
Sweden	Jan-24	Aira	Series B	160		ClimateTech	Altor, Kinnevik and Temasek,	Clean energy-tech solutions
Italy	Feb-24	Bending Spoons	Equity	155	2550	Software	Durable Capital Partners	Mobile apps - Meetup, EverNote
Germany	Mar-24	Turbulis	Series B2	139		Biotech	EQT Life Sciences and Nextech Invest Ltd,	Cancer therapies
UK	Mar-24	Flagstone	Equity	138		Fintech	Estancia Capital Partners	cash deposit platform,
Estonia	Mar-24	Eleport	Funding	130		Climate Tech	Investors	EV Infrastructure developer
Germany	Jan-24	Ineratec	SeriesB	129		ClimateTech	Piva Capital, Planet A Ventures, MPC,	e-Fuels from recycled CO2
Ireland	Feb-24	Mainstay Medical	Equity	125		Healthcare	Gilde Healthcare and Viking Global	ReActiv8 implantable device for low back pain
Netherlands	Mar-24	Mews	Funding	110	1200	Software - Hospitality	Kinnevik,Revaia, Goldman Sachs Alternatives	system to streamline operations for hoteliers
Italy	Feb-24	Medical Microinstruments,	Series C	110		Robotics	Fidelity Management & Research	Robotics tech for surgeons
Croatia	Feb-24	Project 3 Mobility	Series A	110		Autonomous vehicles	TASARU Mobility, Kia, Rimac Group.	Autonomous vehicle, infrastructure
Sweden	Jan-24	Visit Group	Growth fun	110		Travel software	PSG.	collaborative commerce software to experience vendors
Germany	Jan-24	FINN	Series C	110		Car subscription	Planet First Partners, HV Capital, Korelya Capital, UVC Partners,	car subscription provider
Italy	Jan-24	D-Orbit	Series C	110		Space Logistics	Marubeni Corp, Avantgarde, CDP VC, Seraphim Space	ION Satellite Carrier vehicle
UK	Jan-24	Build A Rocket Boy	Series D	110		Games	RedBird Capital Partners, Galaxy Interactive, NetEase Games,	independent game developer and publisher,
Sweden	Feb-24	Heart Aerospace	Series B	107		Aerospace	Sagitta Ventures, Air Canada,	Hybrid electric plane technology
Germany	Mar-24	Solaris	Funding	105		Fintech	SBI Group	embedded finance platform
Spain	Jan-24	TravelPerk	Series D+	104		Travel	Kinnevik and Felix Capital.	business travel management platform
Germany	Mar-24	Razor Group	Series D	100		Ecommerce	PreSight Capital	eCommerce aggregator
Netherlands	Feb-24	Data Snipper	Series B	100	1000	Software	Index Ventures	Automation for audit and finance
Norway	Jan-24	1X	Series B	100		Robotics	EQT Ventures	AI humanoid robotics
Germany	Jan-24	Instagrid	Series C	95		ClimateTech	Teachers Venture Growth, MSIM, Energy Impact Partners	Portable batteries
France	Feb-24	Unseenlabs	Series C	94		SpaceTech	Supernova Invest and ISALT	Maritime surveillance constellation
UK	Mar-24	PPRO	Funding	93		Fintech	Eurazeo, HPE Growth, Sprints, PayPal Ventures, J.P. Morgan	digita local payment solutions platform
Estonia	Feb-24	Starship	Funding	90		Robotics	Plural and Iconical.	Robot delivery service
Denmark	Jan-24	Monta	Series B	88		ClimateTech	Energize Capital, GreenPoint Partners	EV charging platform
Norway	Jan-24	Calluna Pharma	Series A	82		Biotech	Forbion,Sarsia, p53, Investinor.	clinical stage therapies
UK	Jan-24	Eleven Labs	Series B	80	1100	AI Software	a16z, Nat Friedman, Daniel Gross	AI Voice Generating platform

Source: Rothschild & Co

<u>Biggest US VC raises of Q1 2024 ($100m and above)</u>

Country	Date	Company	Stage	Amount $m	Valuation $m	Sector	Investors	What it does
US	Jan-24	Generate Capital	Funding	1500		ClimateTech	California State Teachers' Retirement System.	sustainable resource infrastructure
US	Feb-24	Epic Games	Equity	1500	22,500	Gaming	Disney	Games developer - Fortnite
US	Feb-24	Radiology Partners	Growth Equi	720		Healthcare	Existing and new investors	Radiology practice network
US	Mar-24	Wonder	Funding	700		Food Delivery	NEA, GV, Accel, Bain Capital	Delivery food hall concept
US	Feb-24	Figure	Series B	675	2,675	AI/Robotics	Microsoft, OpenAI Startup Fund, NVIDIA,	Humanoid robots
US	Jan-24	Recurrent Energy	Equity	500		Energy	BlackRock	solar and energy storage
US	Mar-24	Mirador Therapeutics	Funding	400		Biotech	Arch Venture Partners	immune-mediated inflammatory and fibrotic diseases.
US	Feb-24	Lambda	Series C	320	1,500	Software	US Innovative Technology Fund	GPU Cloud computing services
US	Jan-24	Quantinuum	Funding	300	5,000	Quantum	JPMorgan Chase, Mitsui	Quantum Computing
US	Jan-24	Flexport	Equity	260		Logistics	Shopify	Global logistics tech platform
US	Mar-24	Alumis	Series C	259		Biotech	Foresite Capital, Samsara BioCapital, venBio Partners	Plaque psoriasis
US	Feb-24	Freenome	Funding	254		Biotech	Roche	Cancer blood tests
US	Feb-24	Cinq Music	Funding	250		Music	GoDigital Media Group	Music label and distribution
US	Mar-24	Applied Intuition	Series E	250	6,000	Software	Lux Capital	Gen AI for automotive industry
US	Feb-24	Koloma	Series B	246		ClimateTech	Khosla Ventures	Natural hydrogen explorer
US	Feb-24	Fervo Energy	Series D	244		ClimateTech	Devon Energy Corporation	geothermal power
US	Feb-24	NinjaOne	Series C	232	1,900	Cybersecurity	Iconiq Growth	endpoint management, security and monitoring,
US	Jan-24	Sayari Labs	Equity	228		Data	TPG	Supply chain intelligence
US	Mar-24	Axonius	Series E	200	2,600	Cybersecurity	Accel, Lightspeed Venture Partners	cybersecurity asset management
US	Jan-24	Bilt Rewards	Funding	200	3,100	Loyalty rewards	General Catalyst	Loyalty platform for rent
US	Feb-24	Glean	Series D	200	2,200	Software/AI	Kleiner Perkins, Lightspeed Venture Partners	AI work assistant for enterprises

Source: Rothschild & Co, Crunchbase

What are leading venture capitalist investors saying?

Stepping away from the statistics, some impressionistic views of how venture markets are faring. An element of 'new normal' may be appearing. It is now over two years since interest rates started to climb. While interest rates may be higher for longer, many of the excesses of the venture capital market have been knocked out of the system. There is progressively an adaptation to a new environment rather than the assumption that we will go back to the days of relatively free' money.

In a recent interview in Sifted ***Larizadeh Duggan, senior managing director at Teachers Venture Growth,*** observed on conditions for European start-ups,

"It's tempered optimism. We're not out of the woods yet."

She noted that the more difficult funding environment has led many companies to devise new strategies for their businesses, which has frequently had a positive effect; that there are still *'high quality and disruptive companies'* coming to the market to raise and that fundraising for such companies remains competitive.

Her observation is that many companies coming to the market for funds are also considering public flotation and M&A opportunities. At the same time Teachers has noticed an uptick in inbound M&A enquiries by start-ups hoping to be bought by companies in the Teachers portfolio.

Ms Duggan notes that the new conditions in the market means that the threshold for investments is higher,

"We pay a lot more attention to the founders and operational excellence — we don't have the same margin of error as before."

Valuations in the private market are another topic of intense interest. For most of the past two years the market has seen a disconnect between founders and owners schooled in the heady valuation expectations of 2020-22 and investors conscious of the demands of the higher investment returns required by the new rates environment.

Speaking at the Information's Private Capital Conference in New York at the start of April ***Anton Levy, Chairman of the Global Technology Group of General Atlantic*** observed, referring particularly to enterprise software and e-commerce,

"For the first time in a little while, prices…are fair. It's a great environment to put new capital to work."

At the same conference ***Ibrahim Ajami, Head of Venture at Mubadala Capital***, the UAE sovereign wealth fund, observed,

"We are moving to offense."

He observed that Mubadala plans in future to hold more concentrated positions and to pursue deeper relationships with founders.

Even the market for crypto assets appears firmer, in part due to the revival in value in bitcoin. VC investment into crypto and blockchain was $2.5bn globally across 485 deals in Q1, up 32% and 42% against Q4 2023. Nic Carter at Castle Island Ventures who invested in the recent $225m Series A of Ethereum blockchain developer Monad Labs at the start of April commented, "*Enthusiasm has certainly returned on the venture side. It was serene and peaceful in 2023. A lot of capital was sidelined. Venture funds had trouble raising. 2024 is all-around pretty different. We're seeing a lot more appetite for crypto VC exposure among LPs. The hangover from 2022 is far enough away.*"

There is though, a recognition that the exit market is more difficult. Anton Levy commented,

"For many years…as a firm we were selling a lot more than we're investing.…Today, we will invest more than we'll liquidate.…It's not a great exit environment."

He also noted in relation to IPOs that IPOs will remain 'selective' this year and that,

"There were a lot of companies that went public in the last cycle, when there was a lot of exuberance, that were too small. …Any company that went public at less than a $1bn market cap, with probably a few exceptions, is probably disappointed that they did."

Kauffman Fellows (a global network of 882 fellows – 86% of them General Partners or MDs from 765 VC firms managing over one trillion dollars) has just published the results of a survey it conducted amongst 262 of its members managing $250bn in assets taken in Q4 23/Q1 2024.

The key conclusion was a familiar one.

"The market is currently witnessing a positive trend in terms of both velocity and investor interest. However, this enthusiasm is notably more focused on specific segments and business models. Businesses involved in AI, climate, and generally any software ventures that demonstrate efficient growth are experiencing high demand. Conversely, businesses with lower margins, those requiring substantial capital investment, and consumer companies are navigating a challenging landscape."

Fredrik Cassel, General Partner of Creandum

Jonathan Hsu, Co -Founder and General Partner at Teribe Capital comments,

"Our sentiment at Tribe is cautiously optimistic. After a couple of lean years, companies have had time to acclimate to operating in a capital scarce environment. A few years ago, we developed a quantitative venture capital "weather gauge" that measures the macro capital flow in and out of the venture ecosystem. That gauge suggests that we are around the bottom of the capital scarcity cycle, so we expect conditions to ease over the next 12-24 months."

Overall the survey found that 53% of the VC managers surveyed expect to allocate more capital and invest in more startups than last year, with only 6% expecting to invest less.

30% of the VCs surveyed believe 2024 will be a very challenging year for exits although 40% of all respondents believe that there is a market for acquisitions.

97% of respondents believe that fundraising in this environment will be ***somewhat to extremely*** challenging in 2024.

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. In 2023 there was 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. In 2023 it was up 56%. YTD in 2024 it is up 14% meaning the total fall since the peak at end November 2021 is 30%. 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 was reflected in some big valuation reductions in some high-profile VC rounds in 2023

▪ 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 most notably in ClimateTech and Artificial Intelligence. Certain investors remain very active in the space with substantial funds to deploy

▪ The speed of the investment process has slowed considerably. The level of diligence on new deals has stepped up

▪ For much of 2023 big late-stage deals were few and far between with the strongest part of the market in terms of appetite being in Seed and Series A where there is less immediate pressure on valuation. The last few months though have seen a notable pick-up in large later stage deals, most notably in ClimateTech and Software

▪ 2023 saw more downrounds, albeit the substantial fund raising of 2021 and the ability of companies to eke out existing resources has limited the number of these

▪ 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 having moved away from an emphasis on revenue growth and revenue multiple emphasis. There is a sharp focus instead on profitability (or a rapid path to it), on positive free cash flow and an emphasis on DCF and comparative based multiples.

Rothschild & Co: Selected recent deals in Growth Equity and Private Capital

A selection of recent deals on which we have advised.

Castore: £145m equity funding

- Sole adviser to Castore, the premium sportswear brand and end-to-end retailing platform for global sports teams on its first institutional funding round
- The £145m equity investment was led by The Raine Group and valued Castore at £800m pre-money (£945m post)
- Rothschild & Co Debt Advisory also upsized Castore's RCF by £25m to a total of £100m

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 $120m+ Series C

- Adviser to YuLife on its investment by T Rowe Price
- T Rowe Price's first ever private investment in European FinTech
- The Series C extension valued 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

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

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

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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