Flash Market Survey

September 2020

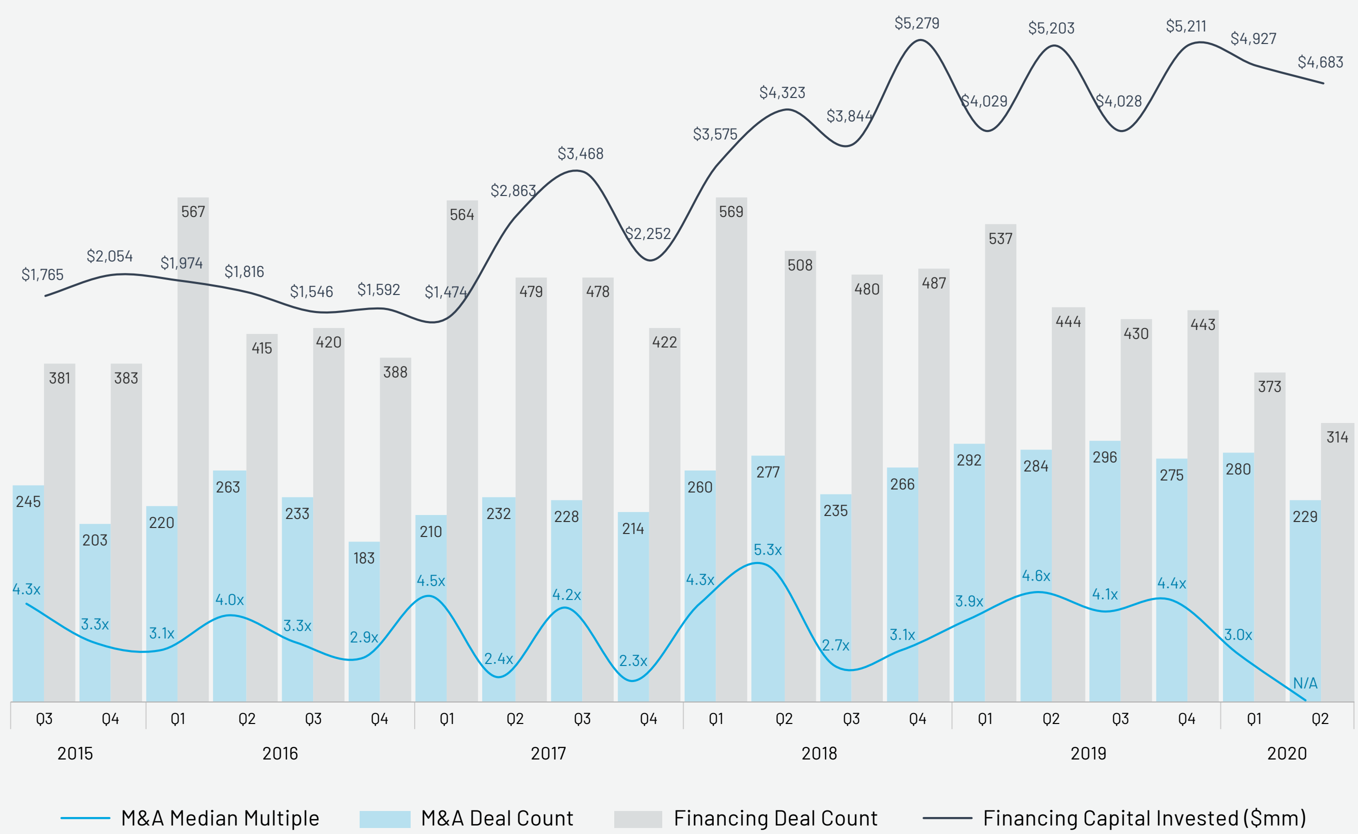
We would like to thank all of those who participated in our recent market conditions survey. At a time when we're all trying to figure things out, we found your responses to be incredibly informative. In some cases, it was remarkable to see virtual unanimity around certain things (all companies and investors reducing cost burden and virtually everyone cautious on public equity markets from here to year end) and a telling dichotomy around others (when we'll return to pre-pandemic levels of activity and the current impact on valuations).

Private Market Activity

First, by way of background, we share data on M&A and private financing activity for three sectors — Enterprise SaaS, eCommerce and Healthcare IT — as a view into the broader growth sector economy.

Enterprise SaaS

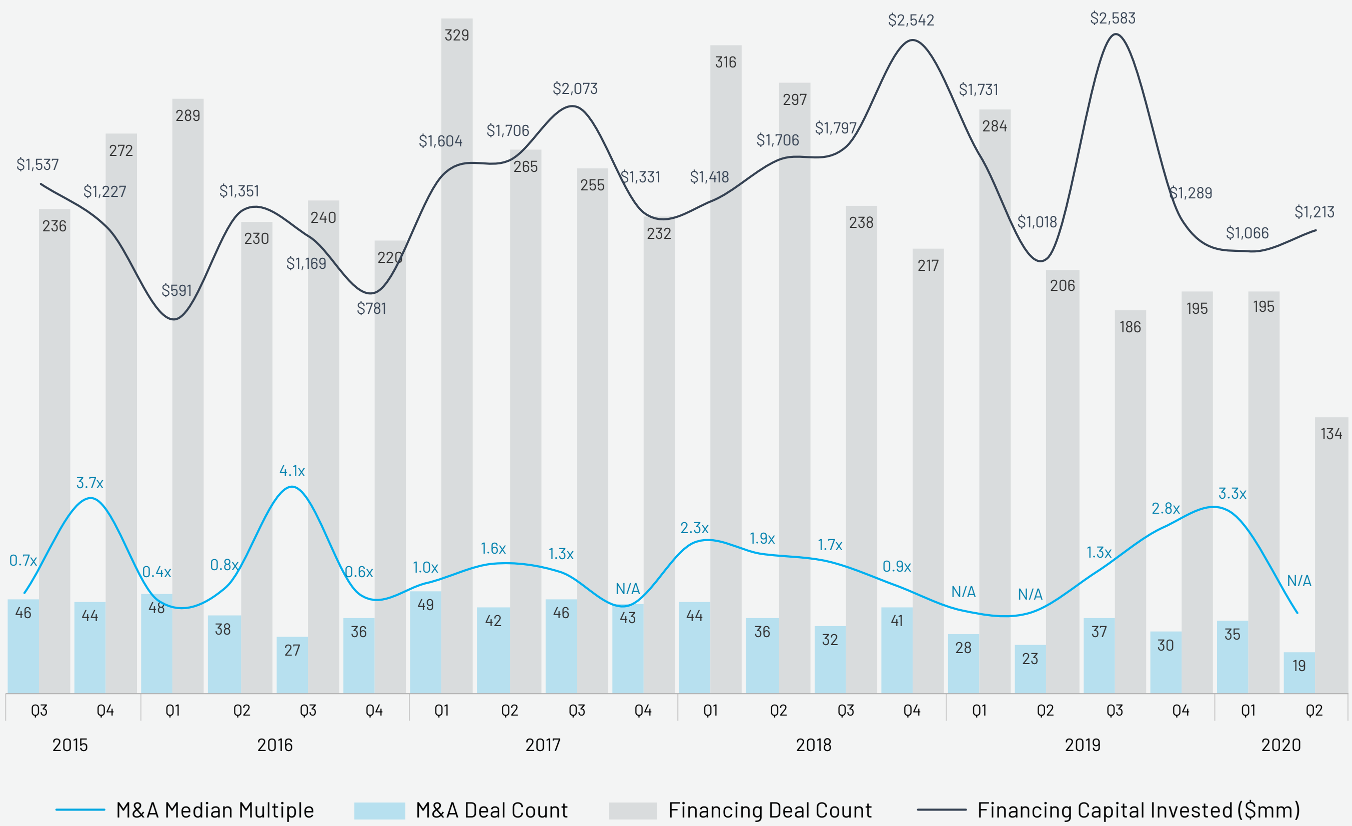
M&A and Private Financing Data Reflect a Q2 Slowdown. Whether measured by the number of transactions, the median revenue multiple on M&A transactions (for those where data is available) or the aggregate value of private financing transactions, the deal markets for Enteprise SaaS companies fell off progressively from Q4 2019 to Q2 2020. To us, this is an accurate representation of the general trend across most technology sectors.



Source: 451 Research & Pitchbook

eCommerce

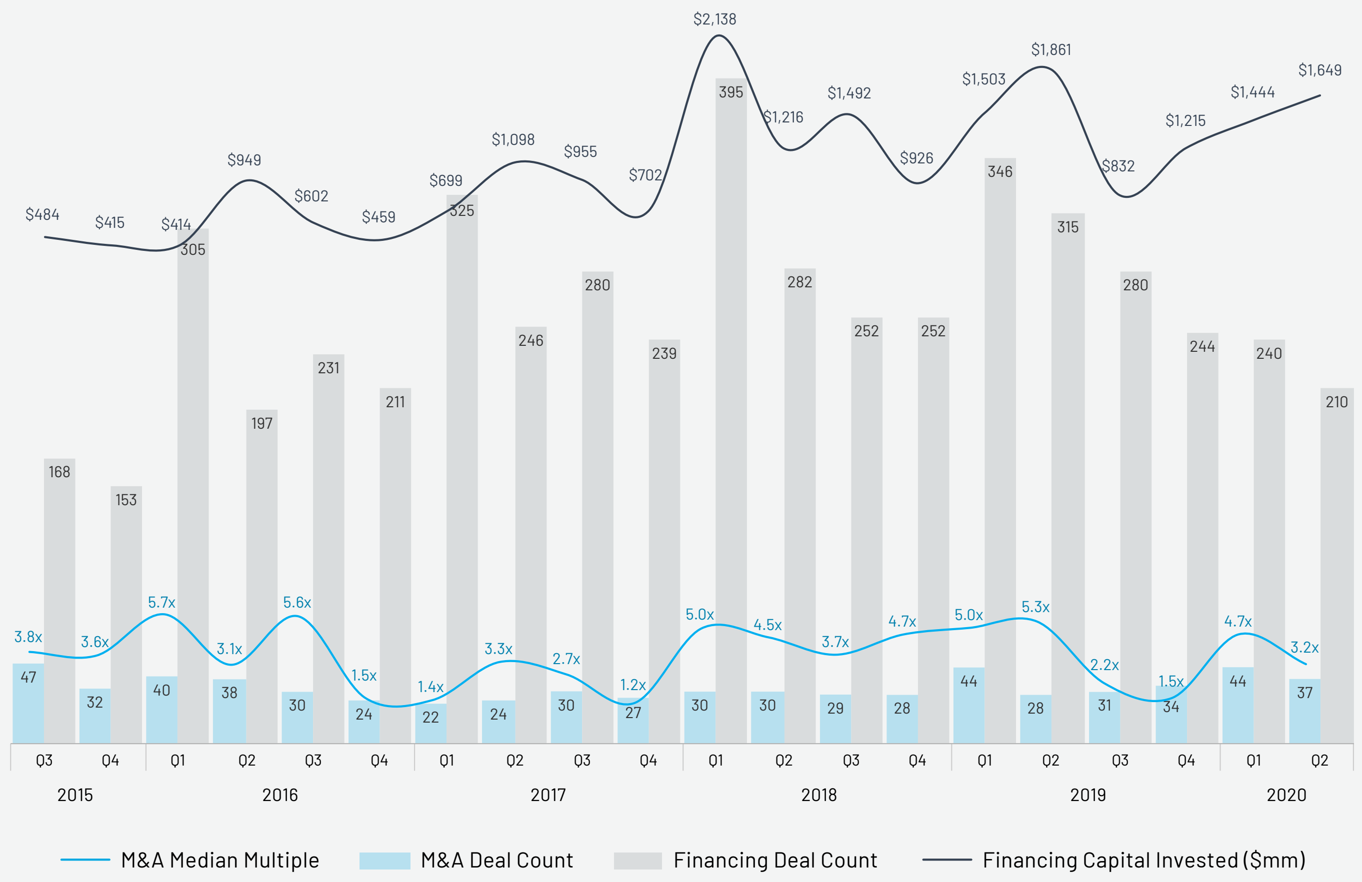
Despite the General Boost to eCommerce, Deal Activity Slowed There, Too. As we are all well aware, eCommerce generally excelled during the pandemic. That said, M&A and financing activity slowed in this sector as well. What we know from first hand experience is that, conditions were at first so unknown and volatile for these companies, the potential parties on both sides of transactions elected to pause activity as they sorted out the longer term ramifications.



Source: 451 Research & Pitchbook

Healthcare IT

Transactions Continue Relatively Unabated in HCIT. In the case of this sector where the pandemic placed a spotlight on glaring opportunities (e.g., telemedicine, patient engagement, analytics), the wheels of finance continued to spin. While private financing deal volume in terms of numbers declined somewhat, this was a trend that began in early 2019 and is a symptom of other factors. Total dollars invested in the space actually increased from Q4 2019 to Q2 2020 and the volume of and multiples on M&A transactions continued at normal levels.



Source: 451 Research & Pitchbook

Survey Results

We were pleased to have representation in the survey from a balanced group of C-level executives, Corporate Development professionals, and financial investors (venture and Private Equity). It was evident from the responses that no one feels pressured to complete acquisitions or investments but that they are all assiduously thinking about how best to move forward constructively. They feel no pressure to put money to work and can generally do so without even having to meet in person, but they will clearly be very thoughtful and studied when they do and, above all else, need to understand how this new environment affects a company's prospects — near- and long-term.

Key Findings

- **Don't Expect an Immediate Turnaround in the Level of Activity**. Most respondents report a slowing in their investment and M&A activity of up to 25% of normal. This aligns with the general data and signals a reduced level of activity but not a dire decrease. Given the long tenure of the robust tech market pre-pandemic (starting in 2009), we all were accustomed to very high levels of both investment and M&A. However, respondents are split on when we will return to normal levels and query what is deemed "normal". In our survey, we saw an almost perfectly flat distribution from (a) "now", to (b) "3 to 6 months from now", to (c) "over a year from now". We found that this is reinforced by comments made about other concerns people have beyond finding a solution to the current pandemic. Politics, debt market issues, and other factors weigh on our respondents' minds.

- **For the Right Opportunities, Buyers and Investors Will Act Now**. Most respondents indicated that while it may take a little longer to diligence a transaction and that they absolutely must understand how the current environment impacts a business, they can close a transaction without in-person meetings. Left unsaid, but implied, is that organizations still have the currency and wherewithal to close transactions. Some indicated that many highly promising and stable businesses chose to step away from the market as financing or M&A candidates — a "slower pipeline of actionable deals" as one put it — thus highlighting that this is a two-way street.

- **Valuation is a Trick Question**. A quarter of our respondents indicated that they saw current valuations as on par with pre-pandemic levels. The rest were split between "down less than 10%" and "down 10% to 25%". More concerning to us, over 90% of respondents predicted that **the Nasdaq will close below current levels at year end**. Seldom do we see this level of caution about the public market, but we have to admit being surprised ourselves as to how quickly public equities have stabilized and even rebounded. Marry this with comments about needing to understand the particulars of individual situations, concerns about the debt markets, political uncertainty, etc., and we believe the valuation question is even more situation-specific than before. Unless a business uniquely benefits from the current environment and can back it up with real results, we'd expect some pressure on valuations to prevail.

- **Beware Other Factors**. We were reminded by our diligent survey participants that other important things often get drowned out by headline news. To us, these are real issues to keep our eyes on going forward:

  » **Debt Markets**. More than a few respondents referenced concerns about the health of the debt markets. There is some worry that federal stimulus and PPP loans may have pushed issues to the background that many fear lurking.

  » **Long-Term Growth Prospects**. Several respondents spoke to revisiting overall long-term fundamental growth assumptions in their own and others' businesses. Beyond the tactical "how does the pandemic affect things" to what it means in terms of sectors and the overall economy going forward.

  » **Political Uncertainty**. We may be over-analyzing but it seemed to us that, beyond the near-term election, some respondents were concerned about the overall political environment and where the U.S. may be headed in the next few years and its impact on the economy, in particular, for growth companies.

We were impressed with the insightful feedback from this brief survey. We found that it reinforced what we see in our own deal activity and calls out potential issues to keep our eyes on going forward. We are optimistic for the remainder of 2020 and anticipate an increase in M&A and private financings as COVID restrictions abate. We sense this from our own client discussions. Furthermore, we perceive the surge in recent IPO filings to be a positive signal for both the public and private capital markets. Should IPO debuts for the likes of AirBnB, Asana, Palantir, Snowflake, Unity Software and others be successful, we expect that, as in years past, this will gradually drive heightened interest in private markets.

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