Business Valuation INTERNATIONAL

# BVINT- NEWSLETTER APRIL 2020

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# INTERNATIONAL CERTIFIED VALUATION SPECIALISTS

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## 1. Private Equity Activity During COVID-19

In Q1 2020, the European PE deal value reached a new peak. However, as the COVID-19 crisis develops, many GPs turn their attention to protecting the value of their portfolios. As a consequence, markets expect to see a slowdown in deal activity in the coming quarters.

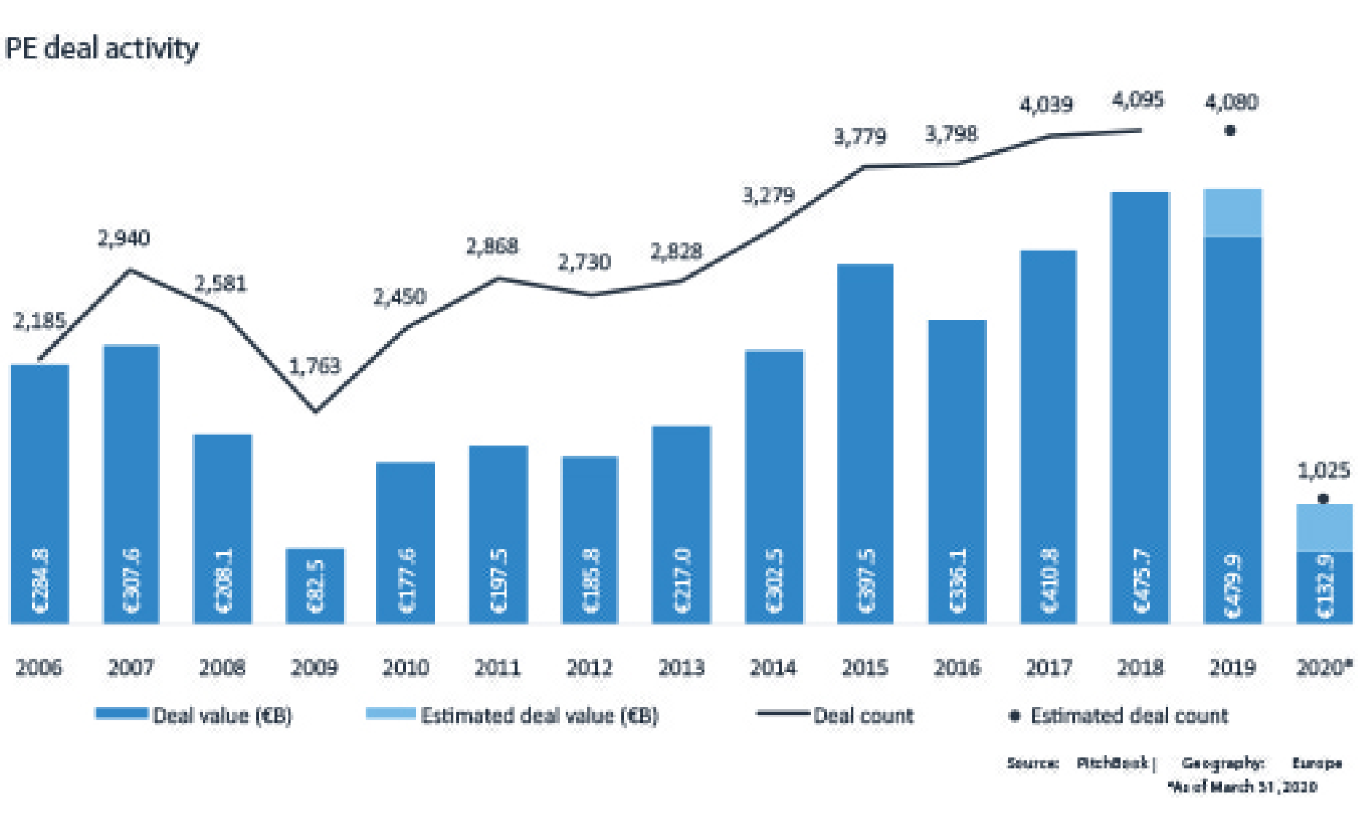
Additionally, with the impossibility to perform in-person due diligence, we may see a quick deal flow decrease to levels seen during the global financial crisis.

The deal value peak seen in Q1 2020 (1,025 deals close for a total €132.9 billion—YoY increases of 6.2% and 40.4%, respectively), was mainly due to the fact that transactions closed in Q1 2020 were negotiated in 2019. These figures should go down as it becomes increasingly difficult to finance large deals without the help of the syndicated loan market.

PE exit activity continued its plunging trajectory in Q1 2020, totaling €35.7 billion across 210 liquidity events, YoY declines of 17.2% and 21.5%, respectively. Many GPs anticipate exit activity will fall even further in the coming quarters as they are avoiding exiting portfolio companies at discounts due to the pandemic and instead choose to hold assets longer, therefore increasing median hold periods and encouraging more GP-led secondaries activity.

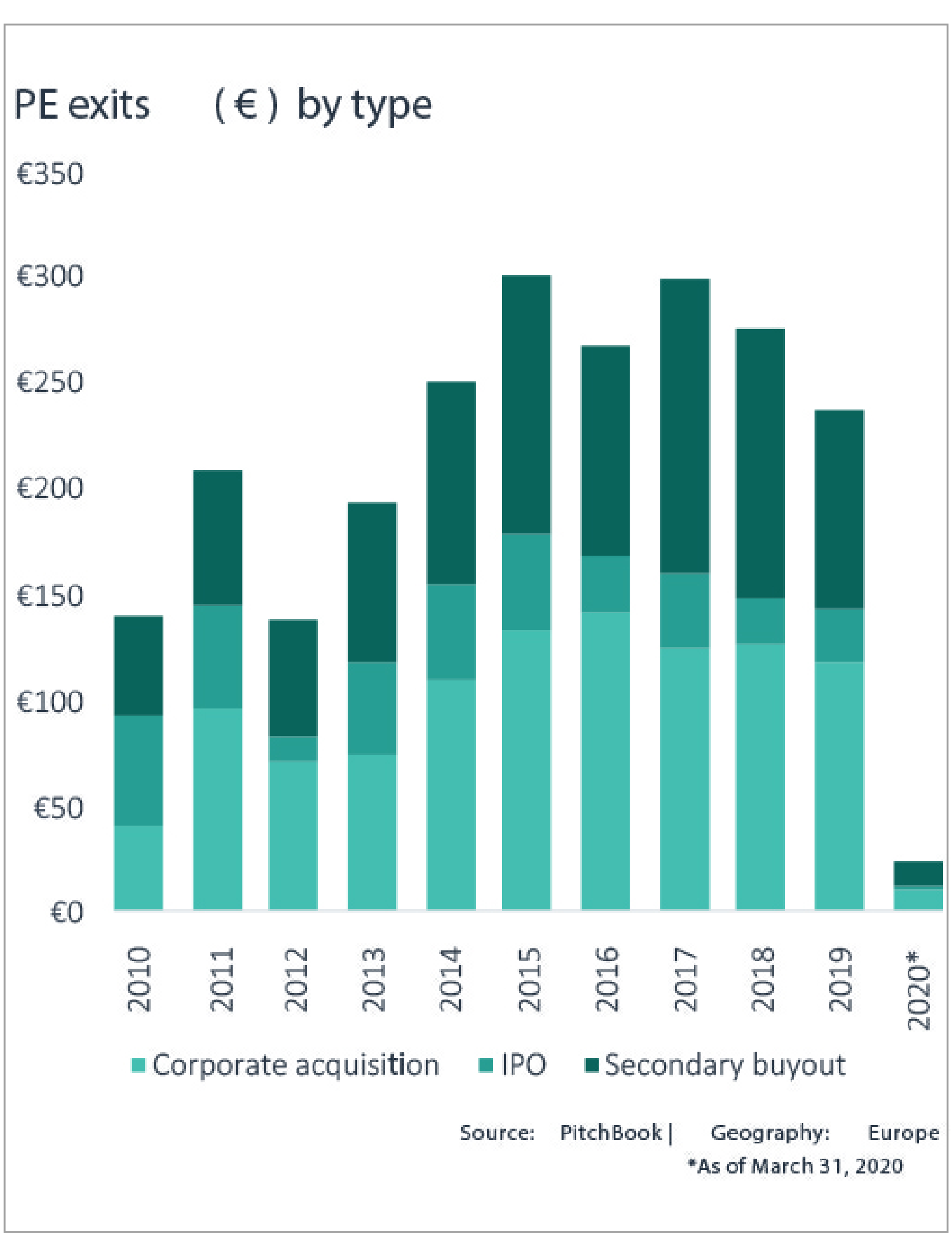
With global travel restrictions and workfrom-home policies in place, GPs expect exit activity via strategics and sponsors to fall quickly within the next two quarters.

Breaking down exit activity by sector, the healthcare industry was the only space to post YoY gains in exit value in Q1. €5.4 billion worth of healthcare exits occurred in the first quarter, equating to 22.7% of total exit value, significantly up from the sector's 10.0% share in Q1 2019.



Source: PitchBook | Geography: Europe
*As of March 31, 2020

(Figure - 1.a)



Source: PitchBook | Geography: Europe
*As of March 31, 2020

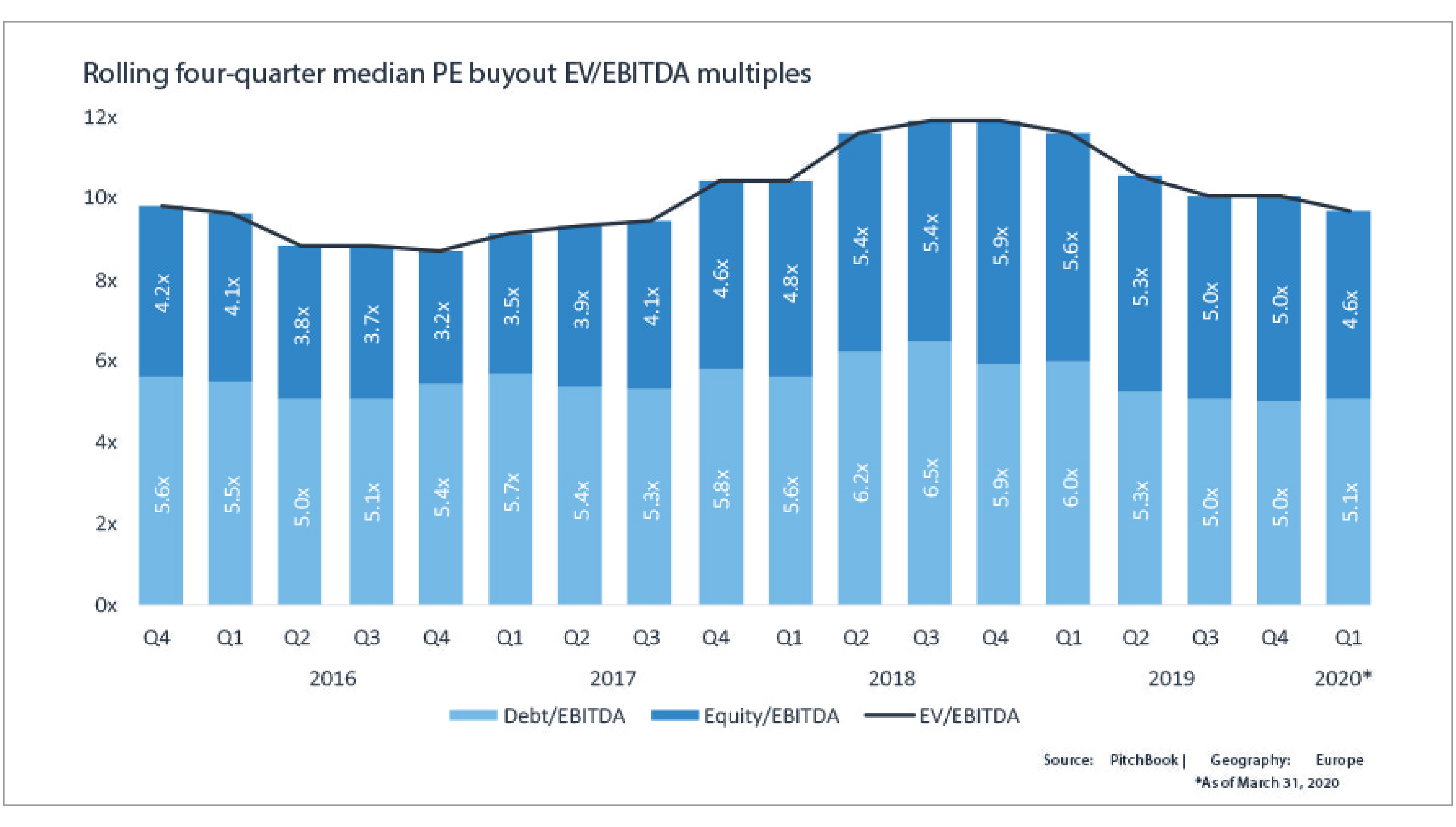
(Figure - 1.b)

## 2. Valuations During and After COVID-19

European valuations are expected to decrease within the current economic climate for a few reasons:

- European EV/EBITDA valuation multiples in 2018 surpassed pre-GFC peaks, due in part to the high levels of dry powder (PEs showed the highest liquidity in years) and the record fundraising activity of recent years.
- Valuations may fall abruptly due to the global GDP decrease. PE assets are somewhat correlated to GDP. The IMF predicts that Germany's economy will sink by almost 10.0% and for every week of lockdown, French business activity is expected to fall by a third).
- Traditional thinking about valuations is changing: Before COVID-19, valuations largely focused on EV/EBITDA multiples, revenue growth and business expansion. Now, in conjunction with these metrics,
GPs will focus on the following metrics:
  - ➤ Liquidity needs
  - ➤ Cash reserves
  - ➤ Optimizing debt capital structures,
  - ➤ Greater emphasis on bottom-up analysis.

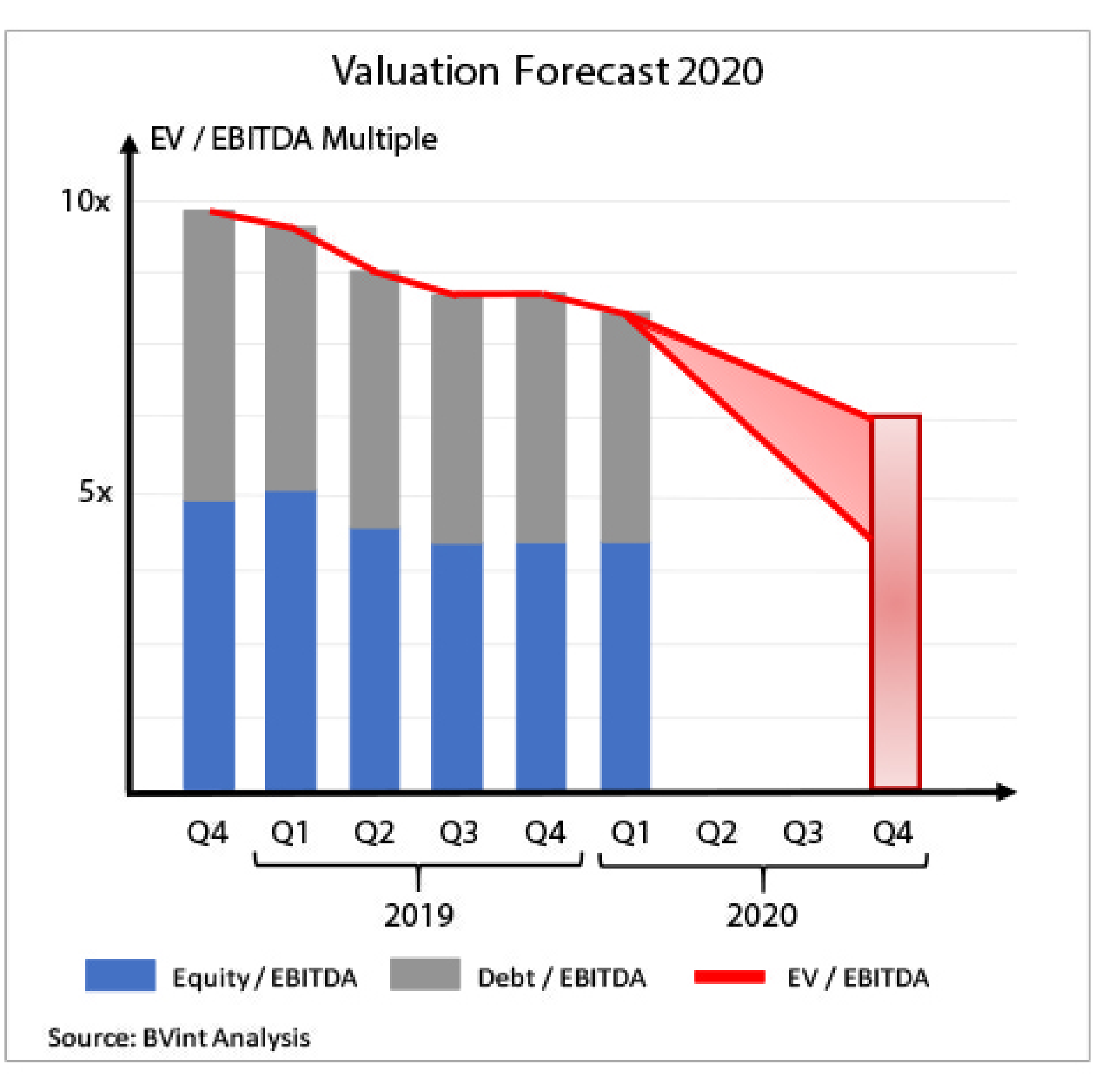
Some GPs are indicating that writedowns between 20%-50% are possible. RVPI multiples are likely to fall, along with past performance numbers from GPs that included unrealized assets in calculations.



Source: PitchBook | Geography: Europe
*As of March 31, 2020

(Figure - 2.a)

**Valuations may fall between 20% and 50% depending on the sector. Some sectors will have a faster recovery. We are not only assessing the impact of the COVID-19 outbreak, but also analysing new trends and different long term scenarios. Each sector will respond in a different way according to the country and industry**



Source: BVint Analysis

(Figure - 2.b)

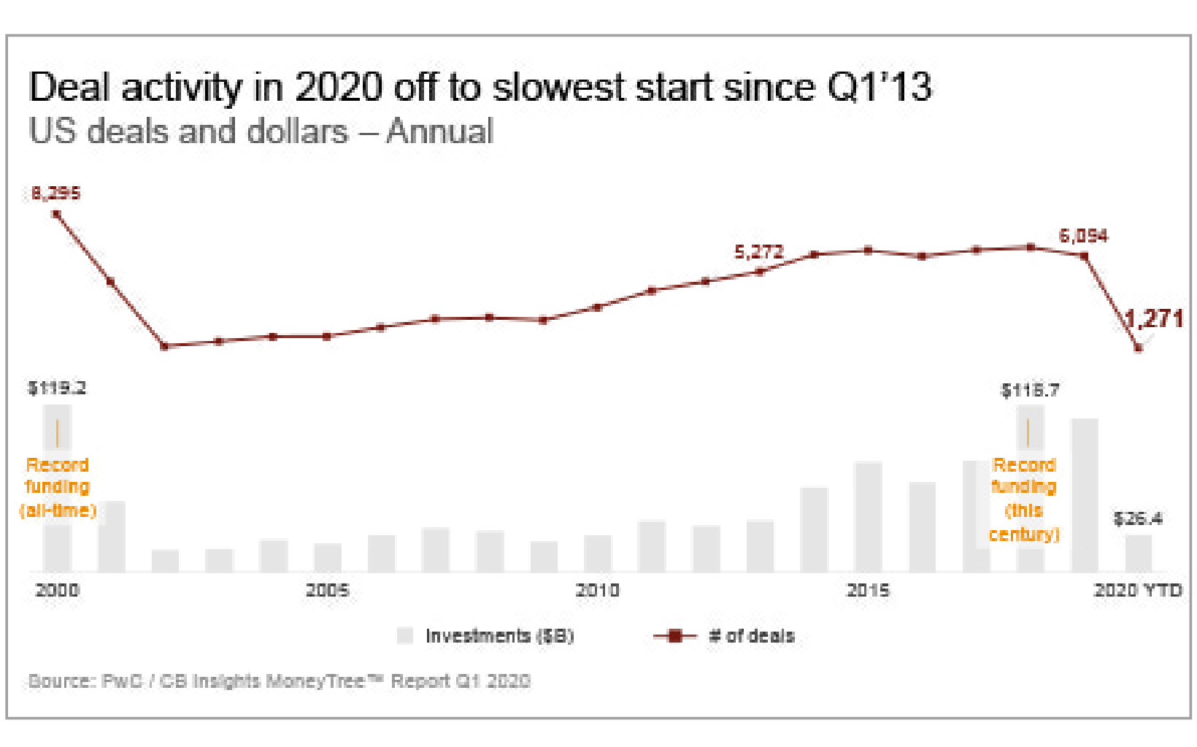
## 3. Venture Capital Deals & Start-ups During COVID-19

US VC deal activity declines in Q1'20, but mega-rounds drive increase in funding:

- US VC deals fall for the third consecutive quarter in Q1'20: Deal activity for US VC-backed companies falls 9% QoQ and 16% YoY.
- In March 2020, US deals decrease 22% YoY, with some of the decline likely attributable to the earlier COVID-19 pandemic. Nonetheless, funding still rises 14% QoQ on the back of larger deals.
- Nearly half of all US funding in Q1' 20 comes from mega-rounds: Despite a slowdown in deals at the end of the quarter, 58 US companies raise rounds worth $100M or more in Q1' 20, close to the record of 67 in Q2' 19. 21 of these rounds took place in March 2020, **suggesting COVID-19's impact may become more apparent in Q2'20.**
- The number of unicorn companies reaches a new high, but aggregate valuation is falling: The number of VC-backed start-ups valued at $1B+ continues to rise, hitting 204 private companies in Q1'20. However, aggregate valuation dips for the second consecutive quarter, to $624B
- **AI, Fintech, Digital Health, and Medical Devices are the at the top of the emerging areas.**
- Sharp seed investing decline.

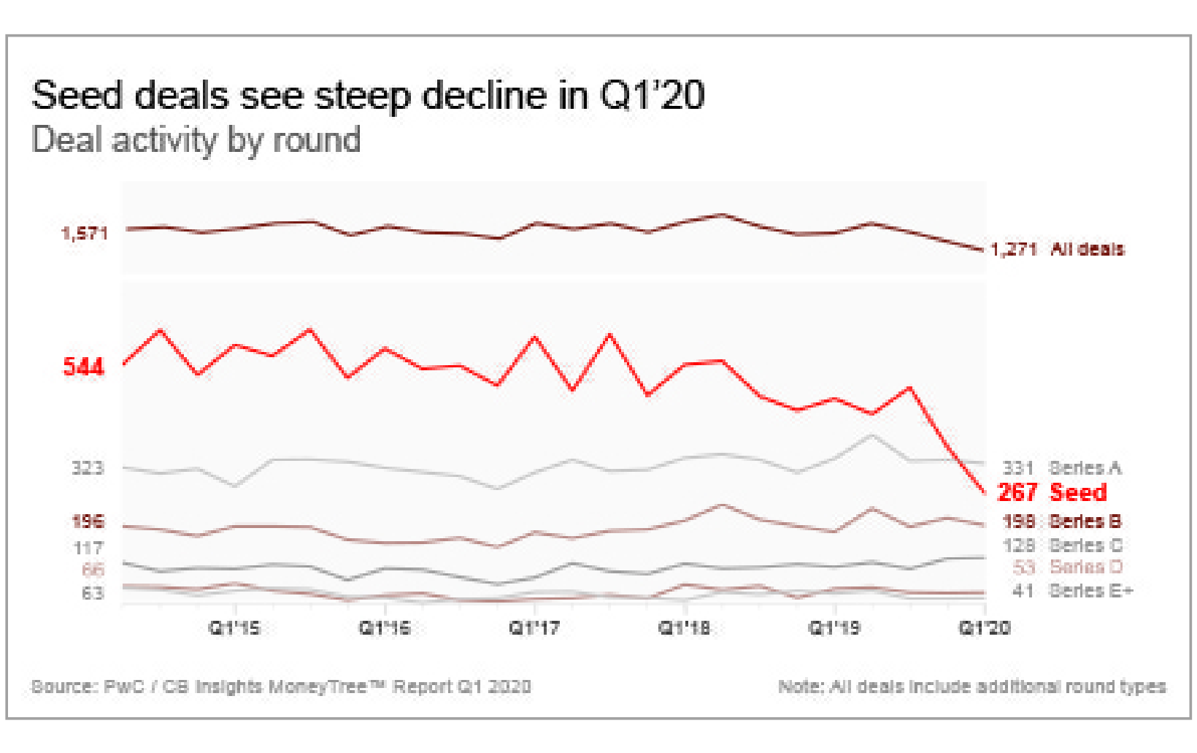
Global deal activity and funding see YoY declines:

- North America, Asia, and Europe see combined funding of $50B in Q1'20: Global VC funding falls 10% in Q1'20 compared to Q1'19.
- Asia sees the largest drop in funding, deal activity: Asia deal activity declines 20% YoY, compared to declines of 17% in North America and 10% in Europe, with some of the decline likely attributable to the earlier outbreak of COVID-19 pandemic. Funding to startups in Asia falls 19% YoY.
- Atlanta, St. Louis, and Boston Metros hit eight-quarter highs for funding activity: Atlanta Metro funding increases to $540M in Q1'20, driven by two $200M+ mega-rounds, while St. Louis Metro funding reaches $412M. Boston Metro sees a 19% YoY increase in funding, rising to $3.5B.
- The largest deals in the US all come from Silicon Valley: Despite a 12% YoY decrease in deal activity, the top five funding rounds in the US are all Silicon Valley start-ups that raised $450M+ each.



Source: PwC / CB Insights MoneyTree™ Report Q1 2020

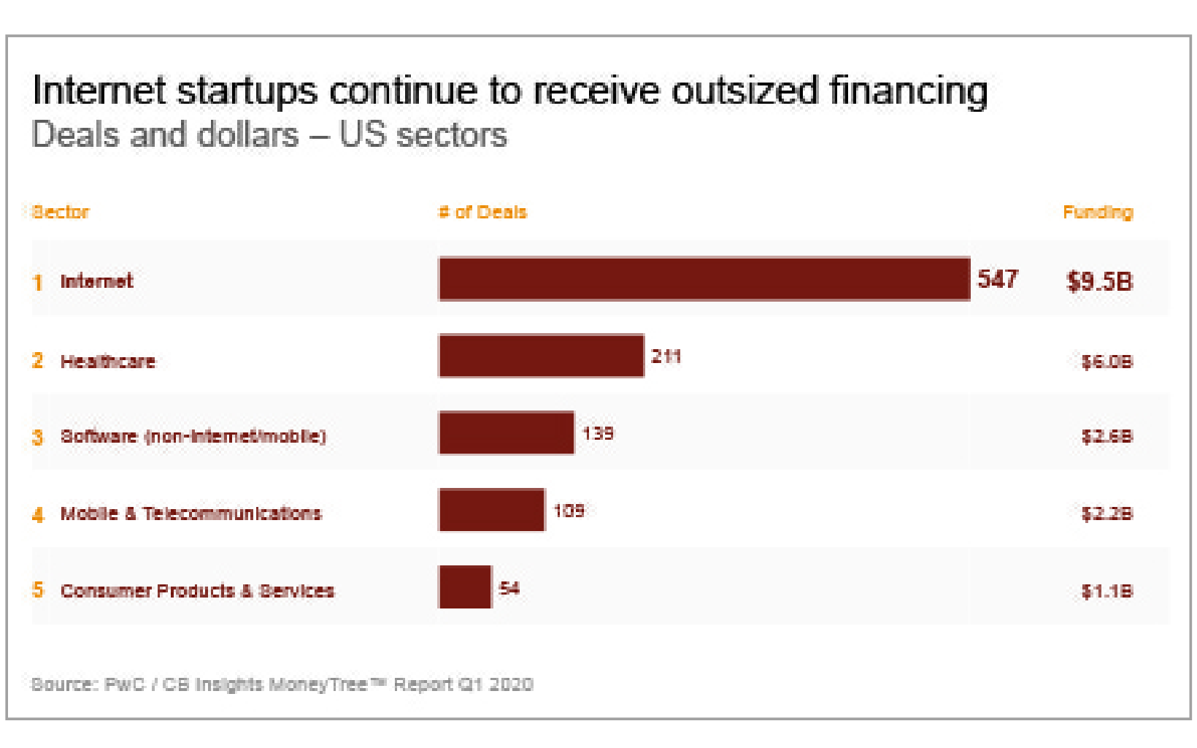
(Figure - 3.a)



Source: PwC / CB Insights MoneyTree™ Report Q1 2020

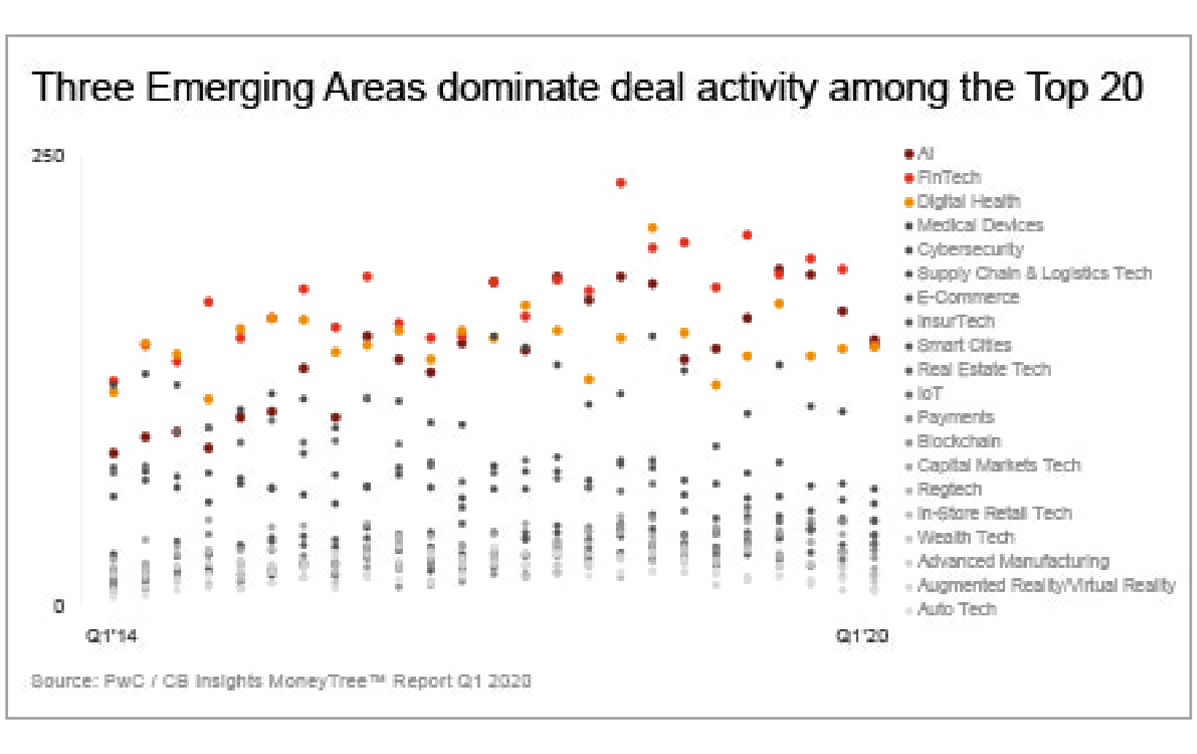
Note: All deals include additional round types

(Figure - 3.b)



Source: PwC / CB Insights MoneyTree™ Report Q1 2020

(Figure - 3.c)



Source: PwC / CB Insights MoneyTree™ Report Q1 2020

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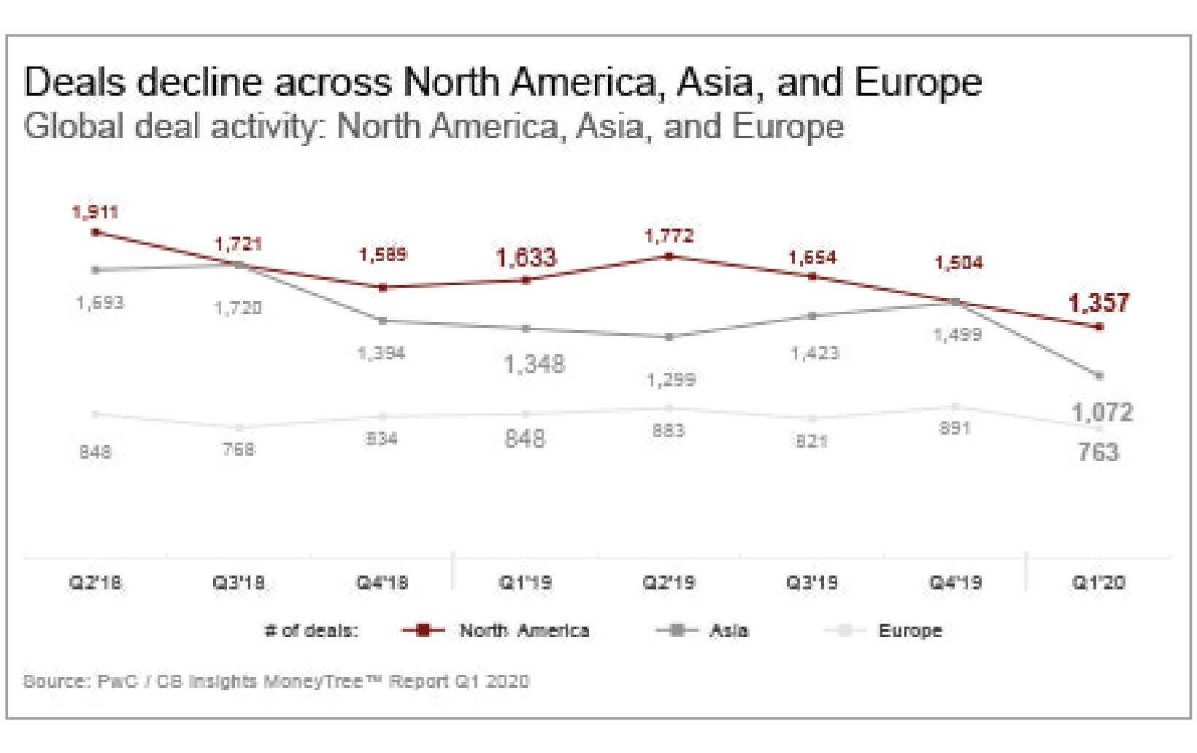

Source: PwC / CB Insights MoneyTree™ Report Q1 2020

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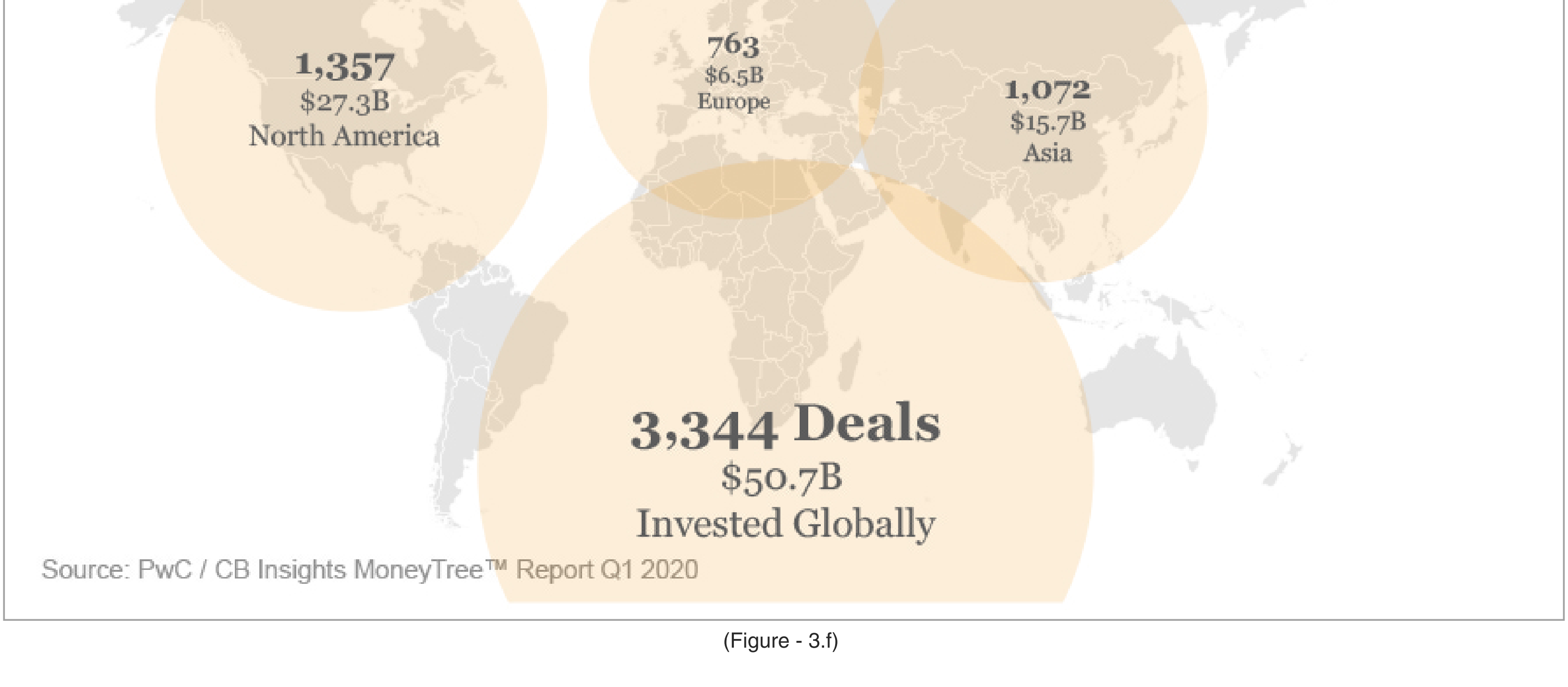

Source: PwC / CB Insights MoneyTree™ Report Q1 2020

(Figure - 3.f)

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