AXA
Venture Partners

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AVPapers #3

What have we seen in 2020 and how we imagine 2021?

2020...

At AVP 2020 has been, like for everyone else, a year of stress and of uncertainty, and also a year during which we have learned a lot.

Nevertheless, it has also been a year of further developments, with **10 new investments** in our Direct Funds and **16 new commitments** in our Fund of Funds. **5 new talented people** have also joined our global team with a common ambition: support innovative entrepreneurs and contribute to drive change through technology.

Our portfolio companies and their management teams, which we are so proud to support, have continued to expand and have demonstrated resilience and capacity to adjust in the context of the Covid 19 crisis. More than **$100m** have been deployed by our teams to support entrepreneurs and world class tech funds across the globe. We will continue in 2021 to invest in new companies or reinvest in our best portfolio companies. But we will also continue to bring value to our portfolio companies by connecting them to our investors and other relevant corporates and partners.

Now that we've wrapped up another year, **we asked our team their perspectives** on what were the main themes in 2020 and which one they believe will carry over into 2021, as well as new trends and technologies they think will emerge. Many of the biggest and most significant trends of 2020 are poised to grow in 2021, as the coronavirus pandemic continues to transform and impact almost every aspect of our lives.

What have we seen in 2020?

FRANÇOIS ROBINET
Managing Partner

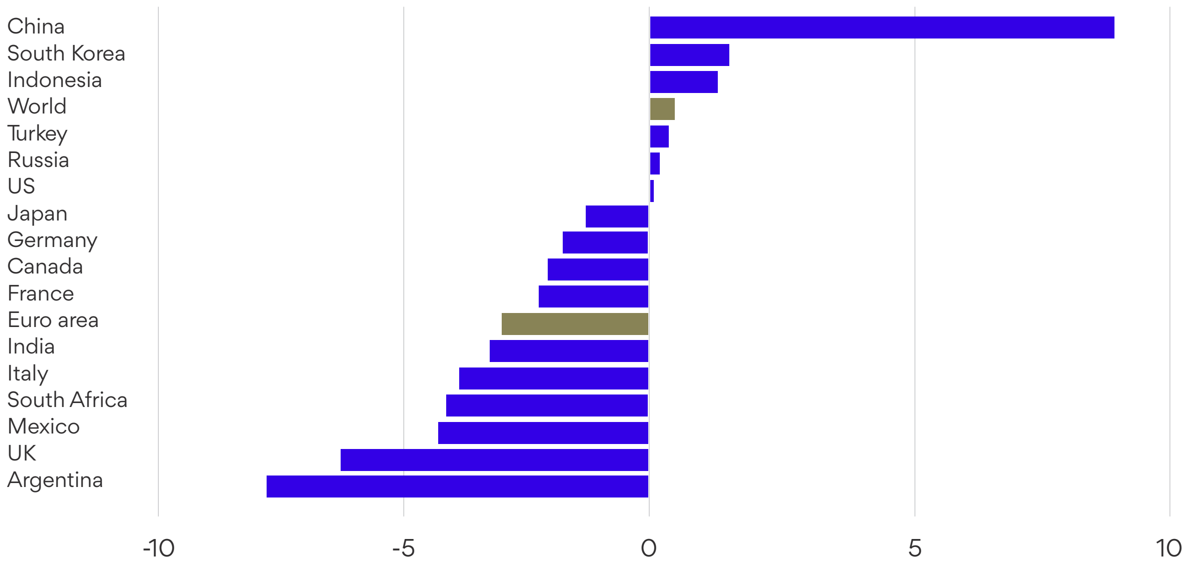
(non exhaustive list of investments)

SecurityScorecard | happytal | InsideBoard | Tanker | FUTURAE

2020 is gone and not many people will regret it ... Let's therefore forget it and look forward to 2021! But we should not think that 2021 will necessarily be immediately easier than 2020. Several dimensions are, if not worrying, at least important to keep in mind:

The Covid crisis is not over! This is stating the obvious. However, even in the most optimistic scenario (the various vaccines are effective and the logistics for vaccination work in most countries), it is unlikely that "normal life" will resume before the second half of 2021. In addition, there are many less optimistic scenarii (vaccines not fully available or not fully effective, new vaccine-resistant variants...) In any case, economic agents, corporates in particular, have anticipated a difficult year and nobody has factored in that 2021 budgets will be back to 2019 levels. Companies have prepared their 2021 budget in a very prudent way, with very often drastic costcutting measures, not only in sectors directly impacted by the health crisis. Of course, it is true that the pandemic has been as is a very powerful catalyst for technology adoption, as developed later. But this doesn't create budget it just means that new investments will be directed proportionally more than before towards tech companies.

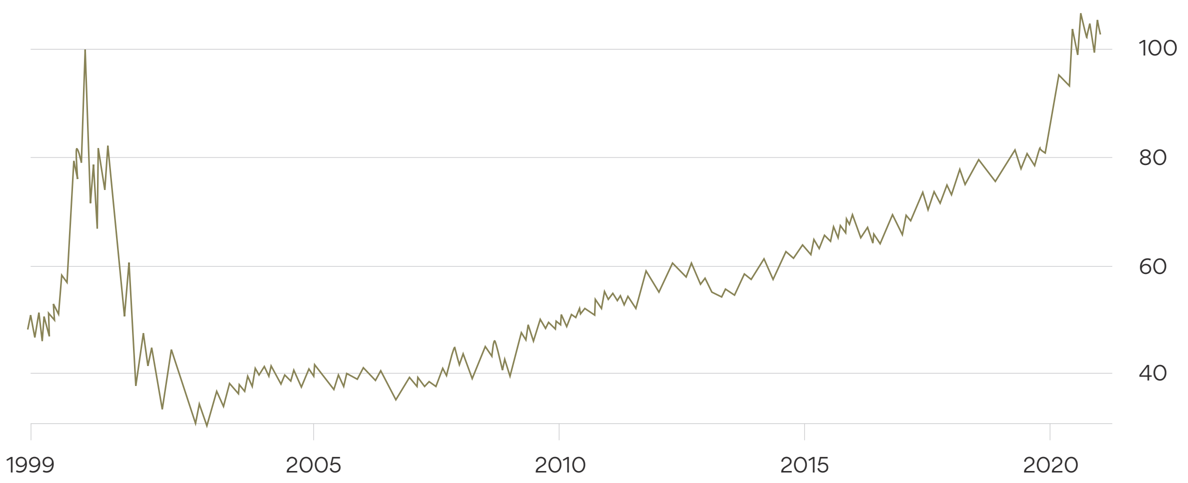
ECONOMIC RECOVERY SET TO BE PATCHY
Change in GPD from Q4 2019 to Q4 2021
Forecast — Source: OECD — © FT



The valuation of technology related companies is going to unchartered territory, difficult to justify. Of course, as just said, the Covid crisis is a powerful tailwind for the digitalization of the economy, for quicker adoption of digital tools by Corporates, big and small, and for development of e-commerce. But this remains in the context of a global recession. There will definitely be less money to spend overall, and even if the proportion of investment that goes towards technology companies increase in relative terms, there will still be less money to spend overall, and it is likely that the overall investment decreases in absolute terms. Considering current valuation levels, this is clearly not the scenario anticipated by the market. This is because in the end, prices do not reflect anticipations (sorry for efficient market theory believers), but what matters is supply and demand and any unbalances adjust through prices. In the public market, abundant liquidity coming from the various stimulus plans and the quantitative easing measures (looking at Central Bank balance sheets explains at least partially current prices). **Bubble? Maybe not a big one, but at least a small one...**

BIG TECH SIGNS OF A PEAK

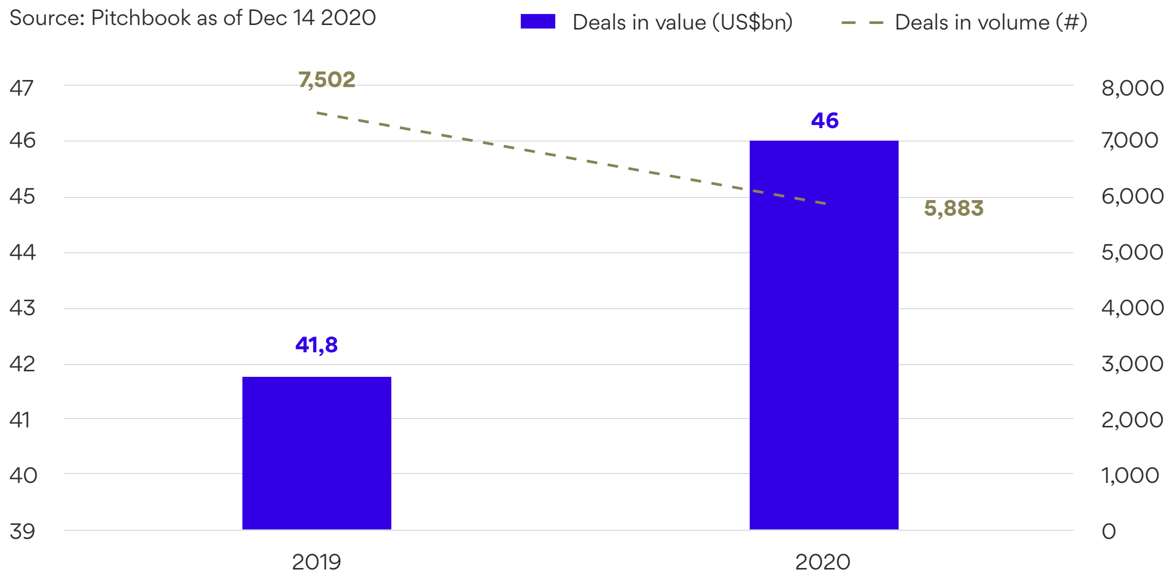
Nasdaq 100 relatives to S&P 500 (10 Mar 2000 = 100)
Source: Bloomberg — © FT



In the private market, many funds have raised new vintage in 2019. These funds have to deploy capital from now on. In the meantime, companies have delayed their fundraising plans, in particular because government-sponsored debt programs have helped them avoid liquidity issues and postpone their fundraising plans. Fewer fundraising operations happened in 2020, and even fewer amongst high standards companies.

FUNDRAISING IN EUROPE VS 2019

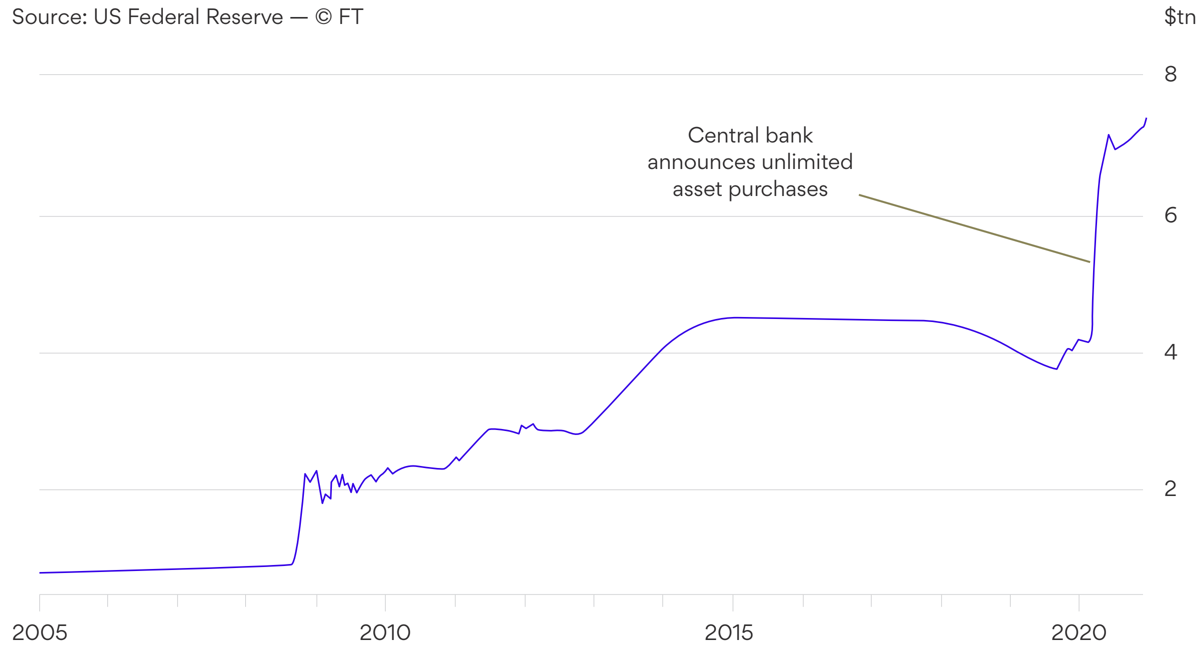
Source: Pitchbook as of Dec 14 2020



Therefore, there is a lot of capital to deploy on fewer financing rounds, directly resulting in higher valuations. Let's see what happens in 2021, but there is a good chance that this situation will not change, at least for the first 6 months.

FED BALANCE SHEET BOOMS AS CENTRAL BANK LOOKS TO PROP UP ECONOMY

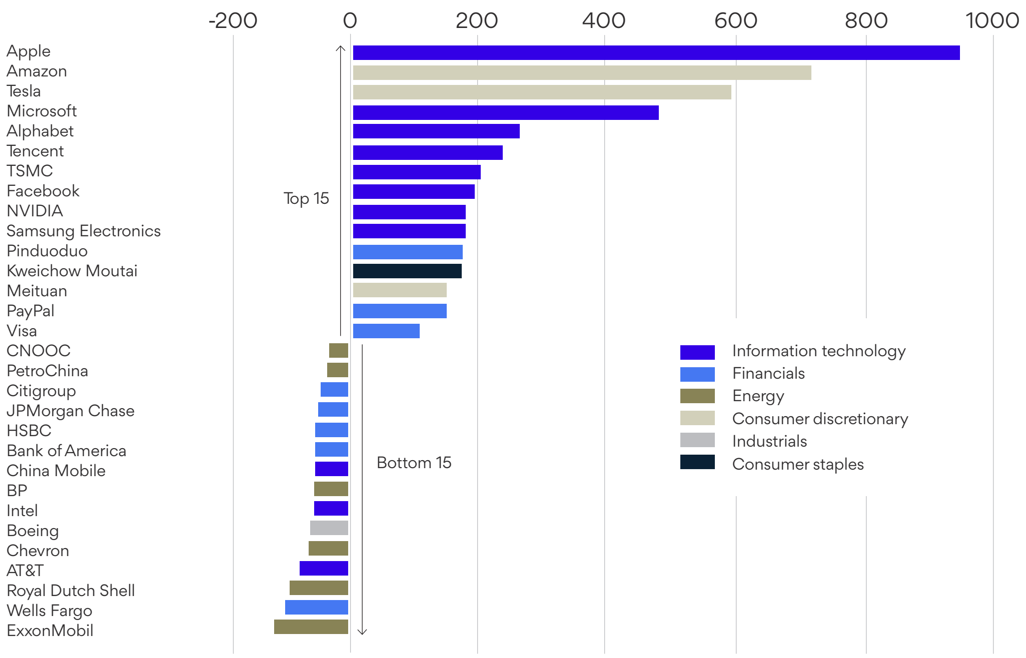
Source: US Federal Reserve — © FT



Finally, the crisis has accelerated the pace for new technology adoption and digitalization of the society, and therefore the pace of disruption in many sectors. But, although it was initially easy to identify the obvious winners or losers (it was much better this year to be a video-conferencing app than an online hotel booking app ...), it is now much less obvious to see what will be the "new normal" and therefore to predict if the "Covid impact" for companies, good or bad, will continue in this new normal and, even more, to what extent. Companies that have suffered explain that, post crisis, they will get back to normal. Will they really? Companies that have benefited explain that it is permanent. Is it really? It clearly isn't in many cases. But the magnitude of this return to the mean, or to this "adjusted mean" is close to unpredictable at this stage. Although the long-term trends are clear, the variability around these trends is higher than ever before. From an investment standpoint, this means that this variability risk should be priced through higher risk premiums (i.e. higher discount rates).

PANDEMIC WINNERS AND LOSERS

By market cap added ($bn) — Based on 7730 companies
Source : Capital IQ — © FT



IMRAN AKRAM

General Partner, Growth

(non exhaustive list of investments)

FORCEMANAGER | ZENJOB | sendcloud | Cognism

With a view to resolving gender imbalances last year I wrote **“Getting flexibility in when and where to work** is helpful not just to women but to all those with families or others they care for. This **can be an area where the technology industry really leads the way.”** Although for different reasons than anticipated, 2020 has re-shaped our personal and work lives dramatically. It is hard to underestimate the human and financial costs of the pandemic, but for those lucky enough to be able to work remotely 2020 has been a huge transition that builds a really exciting foundation.

2020 personally was an epiphany as I questioned for the first time my belief that one should get up and go to the office every work day. While COVID lockdowns prevent people going to their offices it’s hard to realise how much flexibility workers have gained but this will become clear when people once again have the option of being in the office. For managers this has been a year of learning as we all needed to become world class at how to recruit, train, collaborate and motivate staff remotely. When we look back in future years I believe this will be a fundamental moment of change not just for the technology sector but for knowledge workers generally.

2020 also exposed new fault lines in society separating remote workers and the rest, rich and poor, the healthy and the unlucky, the populists and the pragmatists, the young and old, and also put up real barriers between families and friends. Change often seems disruptive and threatening and a year of plague and isolation has been no different. With Brexit behind us, COVID treatments much improved, vaccines ready to deploy and a new US government on the way the world ended 2020 in a better place than it started.

We are still in the early phases of what I believe will be a multi-year struggle against COVID and its consequences but I am amazed at how much has gone right. We are sequencing the virus genome thousands of times every week and tracking its evolution and distribution. At least three different proven vaccines have been developed within a year of the disease emerging and millions of people have already been given doses. Everyone reading this probably deserves congratulations for having dealt with a difficult year!

ALEX SCHERBAKOVSKY

General Partner, Growth

(non exhaustive list of investments)

phenom people | Lessonly | jobble | CONTRAST SECURITY

It’s safe to say that the global Covid pandemic was the definitive event of 2020. As the economic activity declined, companies tightened their budgets and focused their buying decisions on mission-critical and strategic areas. Start-ups selling to enterprise customers had to prove that their offerings delivered clearly measurable ROI. The litmus test of whether a solution is a “must have” or a “nice to have” is an important part of AVP’s investment criteria, so fortunately we saw across the board revenue growth in our enterprise portfolio. The pandemic also tested resiliency of start-ups' business models. As AVP invests in companies with strong unit economics, our portfolio companies were able to make the right adjustments and navigate the crisis without needing to raise additional capital. In fact, some of our companies made adjustments that set them up for accelerated growth. For instance Jobble—the leading marketplace for gig economy workers—helped essential businesses meet their urgent hiring needs, gaining a number of new customers in the process.

MANISH AGARWAL
General Partner, Early Stage

Policygenius | Verifly | qloo | mindoula | D-ID | wellth

(non exhaustive list of investments)

I would say probably in general, but certainly in digital health, a significant acceleration in adoption of digital tools and services in 2020. No doubt, the adoption was driven by Covid, but now that people have experienced the ease of use and quality and insurers have agreed to pay for these services, it will be hard to fully go back to offline models. The biggest barrier to adoption had been people not willing to try these services and the pandemic forced a dramatic increase in adoption.

BENOIT FOSSEPREZ
General Partner, Growth

COVID, in 2020, has boosted tech adoption and tech valuations, and this is only the beginning of both trends. Technologies have demonstrated their unvaluable contribution in 2020 to many economical and societal evolutions: Shifts to 100% remote organization in most enterprises in the world, boost of online commerce while physical were shut down by governments, acceleration of B2C videocalls over voice calls, ability to test fast at huge scale new vaccines via massive spectroscopy technologies, remote education in all school systems, etc. While most NGP declined in 2020, tech valuations have reached record levels in USA, Europe, Asia. Tech is not anymore a volatile, high-risk investment area but became a safe haven. This rise in tech valuations is fundamentally different from the year 2000's though : tech business models benefit from 20 years of history, go-to-market strategies are incomparably faster due to smartphone mass adoption rates in B2C, and API & cloud architectures in B2B, many pure tech companies can demonstrate earlier a sustainable path to profitability. Tech is not only a sector in itself, it has also become the backbone and the enabler of any differentiating user experience and of any industrial process in most economic sectors. This is why 2021 should confirm the rising valuations in the sector.

Tech investment frontiers between investment stages become blurry, which calls for precise investment strategy differentiation. With 360 pervasion of tech in our economies, tech investment standard frontiers between VC, Growth, PE,... have seemed less relevant in 2020. Growth investments have been made by historical PE Funds attracted by higher growth rates, and by early stage funds who increased individual ticket sizes given higher fund sizes derived from higher appetite for tech from institutional investors. At exit levels, the boom of SPAC has proven to be a creative and efficient alternative to IPO, demonstrating again the fast evolution of classical investment stage milestones. Growth investment in tech then becomes very competitive, which requests more focused positionings from general partners. Traditional frontiers are vanishing, each investment firm must define its own scope, differentiation and clear positioning to convince LPs.

DOMINIC MAIER
Partner, Fund of Funds

2020 was a tumultuous year characterized by a global pandemic which brought with it new ways of living and working. We have seen a massive acceleration of tech adoption within everyeones working lives due to the need to work remotely and personal lives due to the need to change everyday habits given global lockdowns. Furthermore, public markets have viewed technology-first businesses very favorably whether strong share price performance or appetite from institutional investors for IPOs or SPACs targeting technology-first companies. Specifically within the LP world, the rapid response by GPs in late Q1 / early Q2 righted the ship for many companies and was instrumental for companies operating in negatively impacted sectors such as travel / hospitality. The rest of the year has been characterized by a 'flight to familiarity' of capital, both when investing in companies and committing to funds.

What do you anticipate for 2021?

IMRAN AKRAM

COVID will be with us for years to come as the virus continues to mutate, reinfections remain a possibility, and distribution of COVID vaccines is industrialised. COVID will likely require a continually evolving and regularly repeated program of vaccination in the way that influenza does. Hopefully we are going through the worst of the pandemic now in the northern hemisphere with a more infectious strain hitting in winter and then we can start moving from disaster response to the new normal.

We are at a pivotal moment in 2021 with many long-held assumptions being revisited about health, politics, international trade and security. Starting with whom we choose to prioritise for vaccinations this is a year that will have long consequences for the example it sets. Prioritising to maximise human lives saved would argue for a globally co-ordinated distribution to the most vulnerable but many politicians will instead prioritise their voters and taxpayers. I expect much debate on this front.

I also expect that with a second year of lockdowns the huge changes in retail with e-commerce booming and home delivery services taking off will become more entrenched in consumer habits. When travel is unlocked there is also likely to be an explosion of pent up demand as everyone splurges on the holidays they had grown accustomed to. I expect countries will also start to be more nuanced about who they let in, perhaps prioritising or only allowing those who have already been vaccinated as some countries do for yellow fever. On the work front a similar embedding of remote work is to be expected as globally companies move from an initial emergency transition to working out what their new normal pattern should be.

Without diminishing the ongoing challenges of the pandemic I enter 2021 excited about the long term potential of the changes recent events have triggered. For millions of workers it will be a huge boon and I do believe will create better, more equal and less discriminatory workplaces better focused on individual delivery over office politics. As always we will continue to seek out and invest in the teams that are adapting to and helping deliver these changes.

MANISH AGARWAL

Looking to 2021, I see continued development of new digital health offerings with the best ones blending people and technology and generating measurable, clinically validated outcomes... I also expect to see continued acceptance of these tools from insurers and governments and creation of regulatory frameworks that support them....

DOMINIC MAIER

Continued challenges at the macro level should be expected throughout 2021, including stop-start nationwide restrictions to suppress the spread of the pandemic whilst the vaccine is rolled out globally. Technology companies will remain largely unaffected with investors seeking companies both benefitting from the status quo and ones that will thrive in the 'new normal,' whatever form that new normal ends up taking.

Until travel in-person meetings return to be the norm, which may not happen in 2021, LPs will continue to prefer to commit capital to teams, strategies, and geographies they are most familiar with. On the GP side, with the playing field more level than ever before, GPs who are able to showcase differentiation through the medium of Zoom will reap the largest benefits over the medium- to long-term.

ALEX SCHERBAKOVSKY

With several vaccines already announced and additional ones hopefully to come soon, it looks like 2021 will be the year when life returns closer to "normal". However, I believe that some of the behavioral changes we've seen in 2020 will persist. For instance, I think people will spend more time working from home or other remote locations. Protecting workers in heterogenous environments will require companies to bolster their security posture, a need that AVP portfolio companies such as Contrast Security, SecurityScorecard, Tanker and Futurae are well-positioned to meet. Another trend we've seen in 2020 is significant innovation in fintech, and I expect the pace of change in fintech to accelerate in 2021 as start-ups challenge incumbents in verticals such as banking, and modern payments solutions facilitate the ongoing shift to e-commerce.

BENOIT FOSSEPREZ

E-commerce becomes a commodity and omni-canality the new normal, UX and quick commerce will make the difference in 2021. 2020 was a perfect storm for physical commerce, and an usage adoption and customer acquisition dream for any e-commerce CMO! Performance differentiation will now come from UX personalization and quality of service calling higher digitization of production and supply chain processes with much faster deliveries ("quick commerce"), segments where value creation will boost in 2021. E-commerce differentiation enablers, conversion accelerators, retention tools and supply chain optimizers are attractive technologies for investors in 2021.

Impact investing is developing for real. 2020 has seen several funds, in US and in Europe, combining tech and impact investment thesis, as COVID crisis amplified how tech can help our world. Impact investing via tech is a way to combine impact and performance. We believe this creates momentum for innovative companies on topics than can not wait such as climate change.

FRANÇOIS ROBINET

What is the conclusion? Not that the world is going to collapse and that everything looks bad or horribly uncertain... on the contrary, there are real reasons for optimism now. But it is perhaps appropriate to suggest that optimism should be measured and that maybe there is a little bit of "irrational exuberance" in various part of the market. If 2021 remains as 2020, with current valuation levels, it is likely that Fund returns will not be stellar. The dilemma between speed of capital deployment and entry valuation will be a key one for many of us this year. It also implies that other factors that matter outside of valuation (domain expertise, proven track record in operational development and business development, presence in several market...) will be key to convince successful companies to take money.

NEW JOINERS IN THE AVP FAMILY

Cognism	Lessonly	InsideBoard	D-ID	unlatch	Troy Medicare	sendcloud	DOCAUTHORITY	ValeraHealth
MARCH	APRIL	APRIL	MAY	JULY	NOVEMBER	NOVEMBER	NOVEMBER	DECEMBER
GROWTH UK	GROWTH US	GROWTH FRANCE	EARLY STAGE ISRAEL	EARLY STAGE FRANCE	EARLY STAGE US	GROWTH NETHERLANDS	EARLY STAGE ISRAEL	EARLY STAGE USA

THE AVP PLATFORM

AXA Venture Partners (AVP), is a tech-focused venture capital firm investing in technology-enabled businesses.

— Tech-focused Investment Platform
— Global Footprint
— Backed by AXA & Equitable
— Direct Funds & Fund of Funds

$ 1Bn
ASSETS UNDER MANAGEMENT (AUM)

5 OFFICES

— San Francisco
— New York
— London
— Paris
— Hong Kong

20+ TEAM SIZE
40+ DIRECT INVESTMENTS
25+ FUND INVESTMENTS

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We invest in great entrepreneurs.
We support outstanding companies.

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