AXA Venture Partners

March 2022

AVP Perspectives

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At AVP, 2021 has been, like for everyone else, a year of uncertainty during which, like in 2020, a virus, unknown 2 years ago, has shaped our life and has transformed our society. It is also a year during which we have learned a lot collectively, in particular the fact that technology was even more than before, a solution to address current and future challenges.

Nevertheless, for us, it has also been a year of further developments and acceleration. We have made **7 new investments** in our Direct Funds and **10 new commitments** in our Fund of Funds. **7 new talented people** have also joined our global team with a common ambition: support 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. Several of our portfolio companies have reached our «**unicorn club**»!

We have also further developed the AVP platform by raising new vintages for all AVP funds (Early stage, Funds investing and Growth stage). Last but not least, we have also finalized **3 successful exits** with Lessonly, Neura and Hub Security.

Now that we’ve wrapped up another year, we asked our team their perspectives on the current environment and how they anticipate the months to come. What are the new trends and tech that will emerge? What is the current mood on the financial markets?

SÉBASTIEN LOUBRY
Partner, Business Development

François, you launched AVP 6 years ago and you have been through different cycles on the market, how do you perceive the current macro-environment?

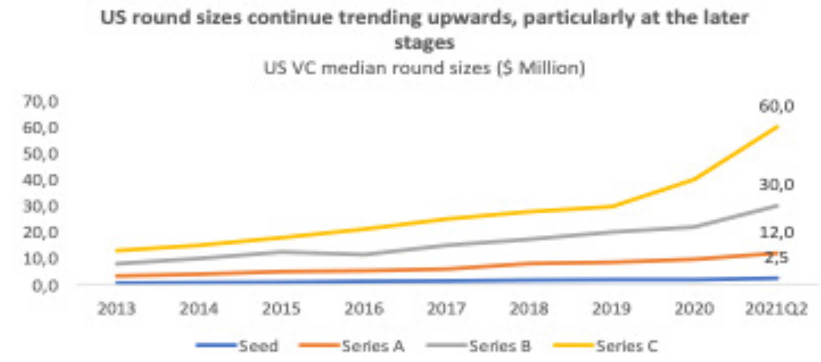
FRANÇOIS ROBINET
Managing Partner

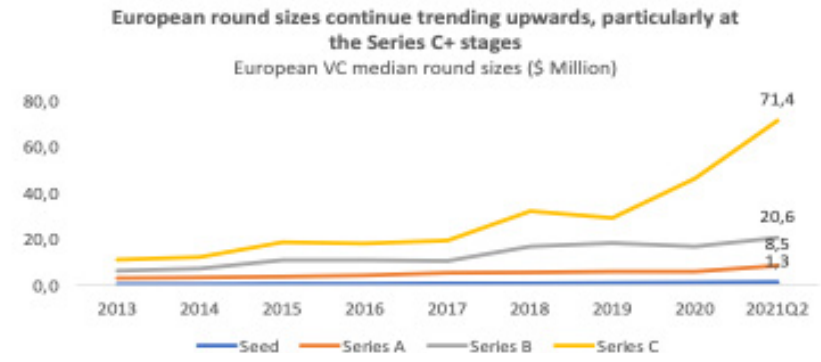
(non exhaustive list of investments)

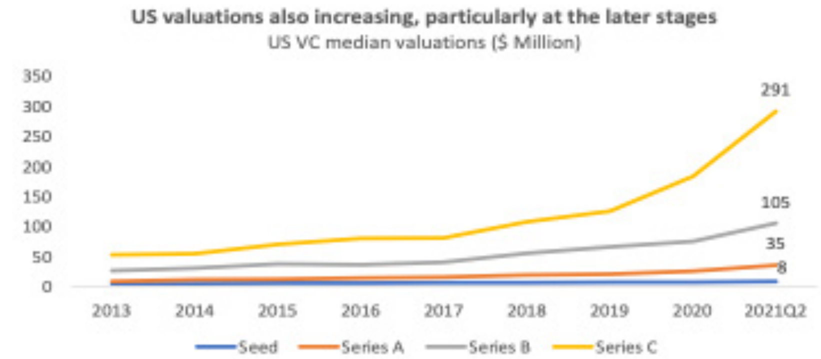
SecurityScorecard | Simundia | AxonIQ | Tanker | FUTURAE | INCEPTO | tracktor.fr

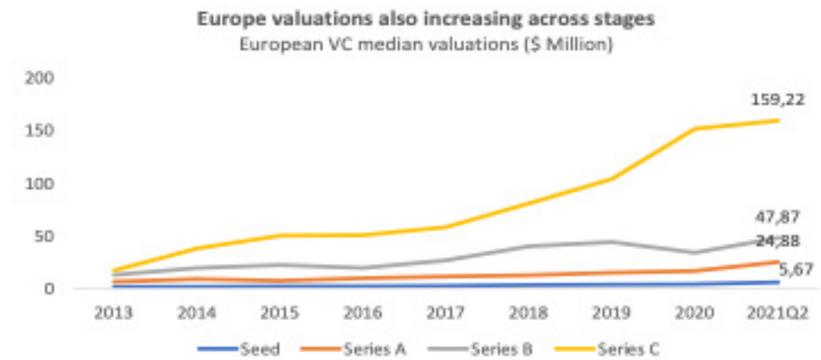
2021 was an interesting year in the VC and Growth market, with record-high fundraising activity, a number of very large financing rounds, a record number of new unicorns … . From a macro standpoint, we have in fact observed two noticeable trends:

First, we have seen a very significant increase in funding round size and correlated to this, a very significant increase in valuation. As a result of ultra-abundant liquidity, resulting from the zero interest-rate policy around the world and boosted even more by Covid-related stimulus plans announced by all governments, and largely financed through quantitative easing programs from Central Banks, there has been a mismatch between supply and demand in the VC and growth markets, resulting in players offering financing rounds in excess of what was really needed by companies, at valuations difficult to reconcile with the current situation of these companies, and in any case, at all-time highs.





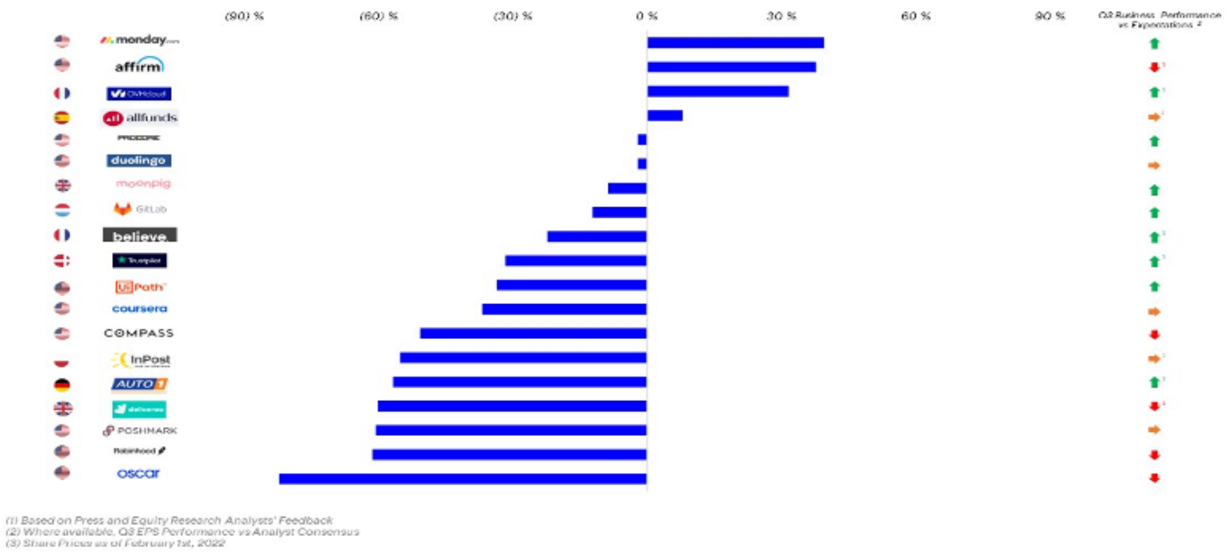




Source: © Pitchbook

Second, the public market has been much more discriminating than the private market. Companies that have IPOed have experienced very different post IPO trajectory, depending on whether they deliver their growth and EPS targets or not. A good story in the VC market can sometimes be enough. A good story in the public market is a necessary condition, but good numbers are also required. And even good numbers do not always lead to good post-IPO performance…

Share Price Performance of 2021-listed companies vs IPO Price [3]



SÉBASTIEN: In this context, what do you expect for the months to come and how AVP, as an investment platform, has a role to play?

For 2022, we believe that it is likely that this « return to the mean » continues and that the « gravity forces » of finance drive market participants to more rational behavior. In particular, higher interest rates due to inflation may be a catalyst for this return to the mean. We don't believe that we are in the same inflationary environment that the world faced in 1974 following the first oil shock. But we believe that the major disruption in the global supply chain that Covid has triggered will not disappear in a couple of months and that therefore, some level of inflation, above long-term average, will continue. If this is the case, Central Banks will act and nominal interest rate will go up and excess liquidity will be, at least partially, removed from the market. Discounting rate will increase, and financing will not be as abundant, even though there may be a lag as funds have still plenty of cash after record fundraising in the past two years. We will surely not come back to a situation post Great Financial Crisis in 2009-2010, but there will be some adjustment to less "irrational exuberance". We believe this is a sound evolution. VC and Growth remain risky asset classes and reward expectations must be correlated to risk…. Of course the Covid crisis has been a catalyst for technology adoption, but it doesn't mean that all companies will grow at 200% for 5 years +, which is what valuation levels observed in 2021 seemed to suggest… Only a handful of them will be capable of such outstanding performance and a disciplined approach to investing should remain the norm. It is definitely our approach at AVP…

SÉBASTIEN: Imran, what has been your personal experience of COVID period?

IMRAN AKRAM
General Partner, Growth

(non exhaustive list of investments)

FORCEMANAGER | ZENJOB | sendcloud | Cognism

Covid vaccines are making the disease a periodic nuisance and allowing them to live as they wish once again. For those in China, which is pursuing a zero covid strategy, that is not yet the case and similarly in the countries where vaccines are not widely available but hopefully this will continue to improve. What will this mean for us all? We have already seen that «return to the office» means three or four days out of five for most of those who could work remotely and «as needed» for developers. I expect we will see employers and employees taking advantage of the flexibility we all discovered and those most flexible on this front winning the continuing war for talent.

Personally, I found the last year has been a good opportunity to examine some unconscious biases in how I divided household tasks with my wife despite us both working full time. The new flexibility I learnt during Covid has improved the gender balance in our home and this will be another benefit for us all. In 2022 I believe a lot of people will also be re-evaluating their business travel with a more sensible balance being struck between the relationship building that is best done in person and the content-heavy work that can be just as done via zoom.

SÉBASTIEN: And what is your view of financial markets in this context?

On the macroeconomic side a 20 year period of easy money seems to be inching towards an end with significant implications for high growth businesses that require a lot of investment for future payback. In technology stocks in particular this re-rating is seeing a shift towards businesses with sound and near-term payback on the cash they invest and that can only be good for the economy as a whole. At the same time there is significant amounts of uninvested capital at private equity funds around the globe and that will continue to flow into the technology sector. Expect significant volatility, some high profile bankruptcies and the gradual return of «traditional» valuation methods based on earnings and cash flows.

SÉBASTIEN: Benoit, you joined AVP two years ago after a career in investment banking and at Veepee.com, could you give us your views on the cooperation between startups and large corporates?

BENOIT FOSSEPREZ
General Partner, Growth

VIRTUO

Most large corporates have historically refused to consider fast-growth, young, tech companies as either a competitor, or a potential partner. They were perceived as too small, not at their scale. Then the impressive success of the best tech start-ups raised question and came with it the fear of the disruption of legacy models : how to react? How to adapt?

Today, we see a shift : large corporates have integrated the fact that innovation can also happen outside of their firm, far from their multiyear expertises, empowered by small companies and new algorithms that accelerate the design of new concepts. In a 2021 BCG study covering 400 deeptech start-ups, 57% of them have declared having signed contracts with large corporates.

We anticipate that the relationships between the large R&D teams of biggest firms and young start-ups will be more and more collaborative and synergetic. Recent examples of partnerships between large defense groups or even public agencies and recently-born cybersecurity companies, or car manufacturers and supply-chain innovative software editors are amazing: corporates with most ambitious innovation programs now include in their roadmaps those different and complementary channels of innovation, associating internal research, talents and external contribution from disrupting, innovating start-ups that have reached product market fit.

SÉBASTIEN: You have recently invested in Virtuo, a French growth tech company, how do you consider the current European ecosystem in terms of maturity? Any changes in the dynamics for entrepreneurs?

The European tech ecosystem has been very active for a few years, but relatively to the US ecosystem, the vast majority of the financing rounds in Europe were below 50m€. The transatlantic positioning of AVP brings a unique point of view on these ecosystem differences, and we believe that 2021 has been a turning point with a wave of larger rounds that demonstrate the maturation of the European tech ecosystem. More than €100bn was raised in 2021 by European Tech, that now counts 321 unicorns vs. 223 at the end of 2020.

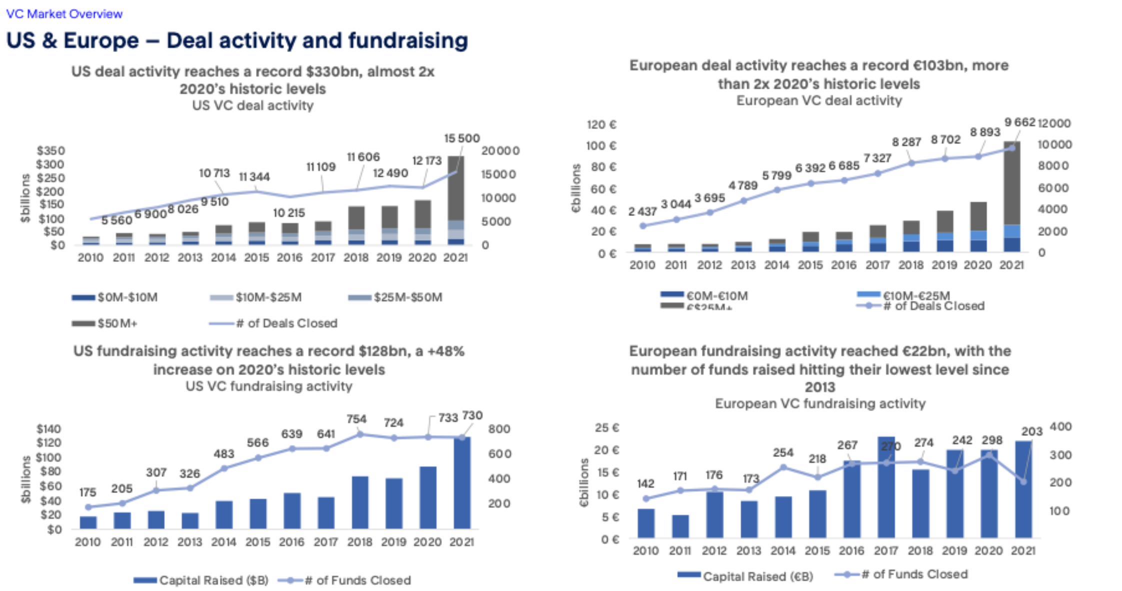
The VC industry is getting organized to support this evolution, with more «growth» deals that represented €36bn of financing in 2021, impactful regulatory initiatives such as the one in France led by M. Tibi for the Government, and European GPs that deploy capital in other regions too as AVP in North America, opening horizons for their portfolio companies. European talents and notably young engineers now clearly prioritize tech for their careers.

We believe 2021 will be remembered as a milestone for this, but challenges evolve alike: Europe needs to create its own liquidity for all these more numerous unicorns. Time for a pan-European Nasdaq?

SÉBASTIEN: Dominic, as a Partner at AVP in charge of Funds investing activity, you screen on a daily basis many ecosystems, different funds across geographies and stages, could you give us your perception of the current environment?

DOMINIC MAIER
Partner, Fund of Funds

The rollercoaster continued in 2021 with the first half of the year characterized by the roll-out of vaccines across populations in the developed world and the second half split between a 'new normal' followed by the global spread of the omicron variant. Contrasting this volatility, global VC and Growth ecosystems have continued to thrive. Investment activity in the US was 2x up on 2020, which itself was a record-breaking year in recent history, while European activity was up 2.2x over 2020 which also was record breaking. Exits in both geographies have defied gravity with €142bn in value in Europe and $775bn in the US during 2021. Fundraising, on the other hand, is a tale of two halves with the US recording breaking numbers with Europe more muted and at risk of losing ground to US managers who are increasingly active in Europe. Investment pace has not been this fast in more than two decades and valuations continue to defy gravity. All of this has been enabled by risk-seeking public market investors driving larger than expected outcomes for many IPOs. The dichotomy between private markets and the bleak reality of the pandemic has been striking.



Source: © Pitchbook

SÉBASTIEN: What about the first months of 2022?

Could 2022 be the beginning of the end of COVID restrictions? We very much hope for that to be the case with the return of more regular face-to-face interactions and greater certainty around international travel requirements. Current public market abatement is likely to make its way into private markets with a one- to two-quarter delay. Further shifts could happen should large macroeconomic shifts such as interest rate hikes or tightening credit markets exceed expectations. This will also exacerbate the delta between companies and GPs deemed to be 'haves' and 'have nots'. Finally, the exuberant behaviour over the last 18 months is likely to culminate in some companies struggling to raise subsequent financing rounds in light of expectations from exorbitant rounds raised at eye-watering valuations.

SÉBASTIEN: Manish, you are based in NYC and you have been very active on investments in Digital Health… Covid has been a strong catalyst for startups in that field… How do you see this space as an investor?

MANISH AGARWAL
General Partner, Early Stage

(non exhaustive list of investments)

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

2021 was a banner year for venture capital. In particular, there was a lot of activity in digital health given the massive market size and significant need for innovation in care delivery models. The Covid pandemic further exacerbated the mental health crisis, while simultaneously making it harder to find care. 2021 saw the launch and / or scaling of a number of mental health startups to address the care gaps. At AVP, we invested in Valera health which addresses a broad range of mental health needs all the way from mild conditions to severe mental illness. Even outside of clinical models, startups are beginning to innovate across a number of aspects of the healthcare value chain. Gravie, another AVP portfolio company, for example is reimagining small business employer health coverage from the ground up by creating health insurance products that are easy to understand and drive prevention rather than treatment.

SÉBASTIEN: And what do you expect for 2022?

2022 has started on somewhat shaky grounds in the public equity markets. We feel that given the amount of dry powder, capital will not retreat from the VC category. Instead, investors will start to differentiate even more between strong companies and those with questionable business models. Within digital health, we feel this will result in sharper focus on outcomes and ROI data. Companies that demonstrate proven track record of actually making patients healthier will continue to have capital available to them at attractive valuations. For us, as investors, that means being very disciplined in evaluating business models and looking for tangible proof points as we make our investment decisions.

SÉBASTIEN: Alex, you are also based in New York and since you joined AVP you have focused your efforts on SaaS companies but not exclusively…could you tell us what Covid has changed for those startups?

ALEX SCHERBAKOVSKY
General Partner, Growth

(non exhaustive list of investments)

phenom people | Lessonly | jobble | CONTRAST SECURITY

This past year was once again dominated by Covid, as the Delta and Omicron waves disrupted what appeared to be the beginning of the "post Covid" era. However, technology companies have found ways to adapt by adjusting their sales motions and embracing remote or hybrid work cultures. For instance, our portfolio company Contrast Security has added product-led growth to complement its enterprise sales go-to-market motion. Now developers can try Contrast's application security solutions, helping convince their organizations to purchase and roll out Contrast's products more broadly inside their enterprises. For many companies, especially in sectors such as digital health and logistics, Covid actually served as a catalyst and accelerated their revenue growth. As a result, private markets in 2021 were very active with increased investor appetite pushing up valuations to levels that in many cases may be unsustainable.

SÉBASTIEN: And for 2022, on which dimensions our companies will expand?

As we emerge from the Omicron wave and as therapeutics become more widely available, 2022 should usher in the "new normal" of living with Covid. This should serve as a tailwind for many technology companies, especially ones selling to enterprises that benefit from in-person meetings.

Covid catalyzed significant innovation in digital health, and I anticipate continued rapid adoption of new technologies to make care delivery more effective, efficient and easier to access. I also believe that more companies will incorporate fintech elements such as payments in their business models, and that we'll continue to see more vertical- and demographic-specific specific fintech applications.

Our portfolio company Jobble — the largest marketplace for independent workers — now offers financial products such as a debit card and insurance to gig economy workers that often don't have the same access to these offerings as full-time employees. I also believe that — as investors take stock of the valuation environment — that multiples will come down to more sustainable levels.

NEW JOINERS IN THE AVP FAMILY

JAN.	AxonIQ	EARLY	NETHERLANDS
FEB.	ValeraHealth	EARLY	US
MAR.	GRAVIE	GROWTH	US
MAR.	IDELIC	EARLY	US
MAY	vida	GROWTH	US
MAY	VIRTUO	GROWTH	FRANCE
OCT.	Simundia	EARLY	FRANCE

3 SUCCESSFUL EXITS

Lessonly
GROWTH

NEURA
EARLY

HUB
EARLY

NEW HIRES ACROSS GEOGRAPHIES

PARIS

- Marie Bourlès — Finance and Middle office associate
- Alexandre de Martino — Associate
- Aniela de la Villemarqué — Associate
- Fabienne Cieutat — Office Manager

NYC

- Swetha Ravichandran — Analyst
- Kristina Koskinen — Office Manager
- Constance Bielle — Analyst

4 UNICORNS IN THE AVP PORTFOLIO

CONTRAST SECURITY
SecurityScorecard
Blockstream
phenom people

NEW VINTAGES FOR ALL AVP FUNDS

AVP EARLY STAGE II
€130M

AVP DIVERSIFIED II (FUNDS INVESTING)
€230M

AVP CAPITAL II (GROWTH)
€500M
(TARGET SIZE)

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
- Singapore

20+ TEAM SIZE

40+ DIRECT INVESTMENTS

25+ FUND INVESTMENTS

AXA Venture Partners

We invest in great entrepreneurs.
We support outstanding companies.

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