

Venture Capital Update

First Quarter 2020

Markets Turn Bearish in Shutdown Economy

Executive Summary

Venture capital (VC) deal counts slowed slightly in the first quarter despite an increase in dollar volume invested, which follows the trend of fewer but larger deals. As the spread of the coronavirus began leaving its mark late in the quarter, it is unsurprising that there is a slowing in activity.

There were tremendous levels of fundraising in 2018 and 2019, bolstering cash reserves to over an estimated \$100 billion. VC investors are expected to deploy an increased proportion of their dry powder to support existing portfolio companies. However, we would still not be surprised to see relatively strong levels of new investment (compared to historical averages) in the near future due to these hefty levels of dry powder. In fact, preliminary data for the second quarter has not shown as significant of a slowing in VC investment, compared to what we are initially seeing in merger and acquisition (M&A) activity.

With a slowing M&A market combined with companies delaying plans for initial public offerings (IPOs), the level of venture capital firms exiting (selling) their investments has slowed. The first quarter reported the fewest number of VC exits since the third quarter of 2011. And 2020 will likely pale in comparison to record levels of exits in 2019, which included notable exits such as Uber and Slack.

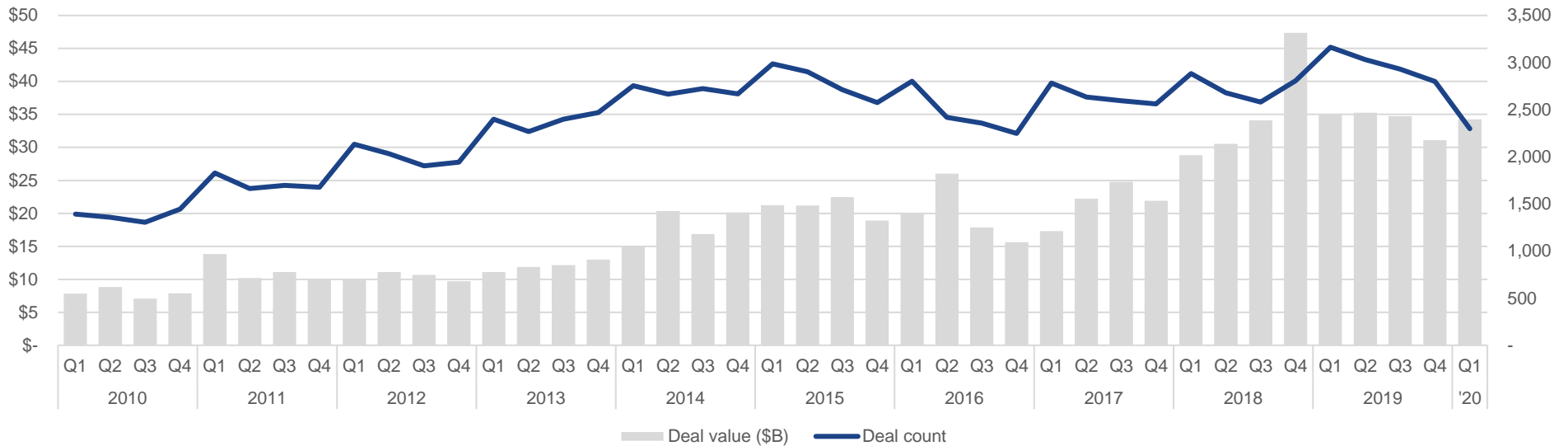
As always, contact us if you would like to discuss activity in a particular industry.

Q1 Economy & Public Market Highlights

- US VC investments totaled \$34.2 billion across 2,298 deals, an increase of 10.2% in value but a decline of 17.9% in volume from the fourth quarter
- Q1 value declined 2.2% year over year, but volume declined 27.3%
- Volume of later-stage deals seems to be holding strength in the corona economy
- Q1 exits were the lowest volume since the third quarter of 2011, and volume for the second quarter is likely to decline further
- Fundraising has been robust thus far in Q1, but fewer funds are raising these funds – notable Q1 fundraises include those from Tiger Global, General Catalyst, and Lightspeed Venture Partners

VC Activity Likely to Decline as Investors Refocus

Quarterly US VC Activity¹



US VC Highlights

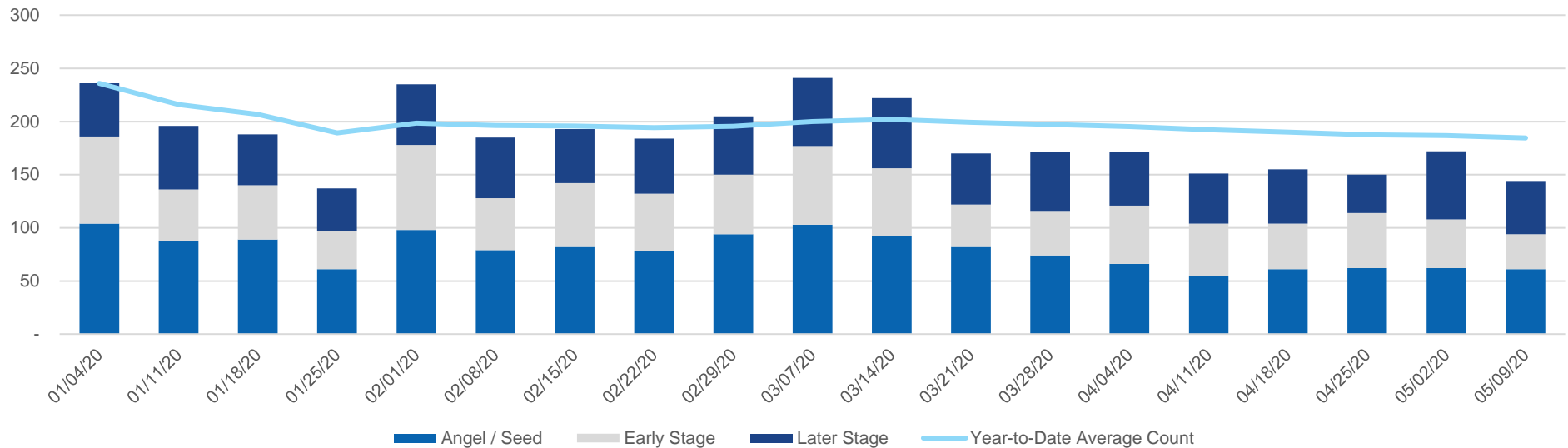
- Venture capitalists invested \$34.2 billion across nearly 2,300 deals in the first quarter, an increase of 10% in value over the fourth quarter but a decline of nearly 18% in volume
- Activity will likely slow further in Q2 as venture investors turn their attention to existing portfolio companies, ensuring their capital needs are met while the economy endures hardship from a sudden stop from social distancing measures
- A bright spot in the outlook is that investors are still flush with cash, with more than \$210 billion raised since 2016 and a little more than \$120 billion in dry powder (cash waiting to be invested) as of mid-year 2019

Notable US Q1 Investments

Date	Target	Investor(s)	Investment (millions, USD)
03/02/20	Waymo	Silver Lake Management <i>et al.</i>	\$ 2,250
01/14/20	Generate Capital	AustralianSuper, QIC, <i>et al.</i>	1,000
03/02/20	Quibi	Alibaba Group, WndrCo, <i>et al.</i>	750
03/05/20	Chime	DST Global, General Atlantic, <i>et al.</i>	700
01/15/20	Joby Aviation	Toyota Motor, Intel Capital, Oryx, <i>et al.</i>	590
03/13/20	Impossible (Meat)	Mirae Asset, Khosla Ventures, <i>et al.</i>	500

Early and Late-Stage Deals Remain Relatively Stable

US VC Volume by Week, 2020

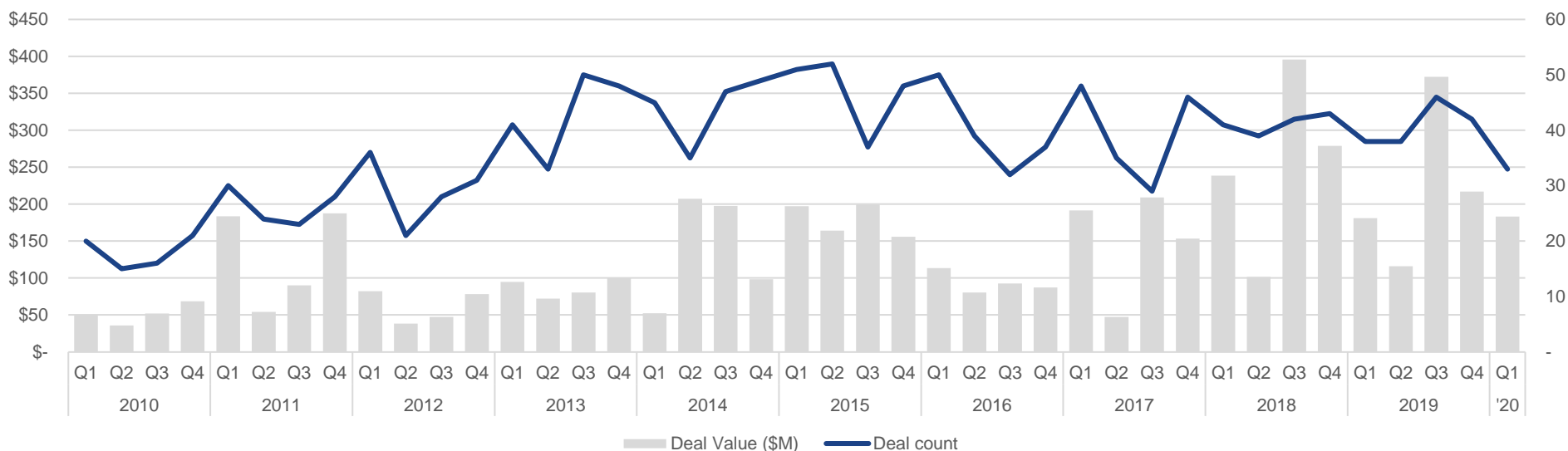


VC Outlook

- Many current and leading economic indicators, particularly job losses, suggest dire conditions for the US economy. Through May 14th, there have been approximately 36.5 million initial claims for unemployment insurance in the trailing eight weeks, suggesting a real unemployment rate of above 20%. The startup world is not immune to job cuts, budget cuts, or bankruptcies. Investors are more likely to curtail new investments to ensure current portfolio companies have enough cash runway to weather a downturn.
- According to preliminary data from Pitchbook, the number of investments into early and late-stage companies has not shifted significantly from the start of the year to April/May. Most of the volume decline was attributable to investments in angel and seed rounds, which makes sense from a risk and (relative) flight-to-safety perspective.
- Though certain sectors may fall out of favor with shifting market dynamics, we see a favorable shift in other sectors of industries. Life science startups, particularly those working on vaccines and other medicines, are receiving extra attention from investors. Similarly, startups that offer remote and online solutions, such as telehealth, online workforce management, and online communication developers are garnering attention from investors.
- With plenty of cash on the table, we may see an uptick in venture investments if the economy recovers some ground in the near future or if there is light at the end of the tunnel (e.g., a promising vaccine for COVID-19). The prolonging of economic shutdown via social distancing and self-isolation may result in the opposite.

Midwest Healthcare Startups in Spotlight Amid COVID-19

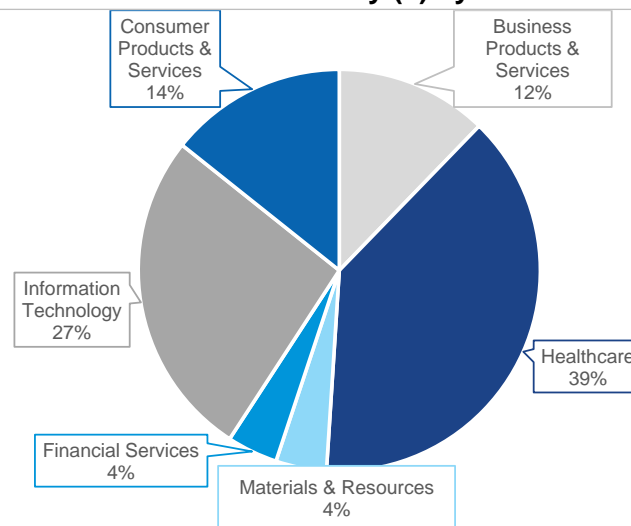
Quarterly Midwest VC Activity¹



Midwest VC Highlights

- First quarter VC investments in the Midwest totaled \$183 million across 33 deals, down from Q4's \$217 million and 42 deals
- Value consideration increased year over year 1%, but deal count declined 13% during the quarter
- Healthcare and information technology garnered the most interest among venture capitalist investors, accounting for 39% and 37%, respectively, of Midwest deals
- Among sub-sectors, software accounted for 24.5% of Midwest deals, while healthcare devices & supplies, commercial services, and pharmaceuticals & biotechnology accounted for 14.3%, 12.2%, and 10.2%, respectively

Q1 Midwest Activity (#) by Sector

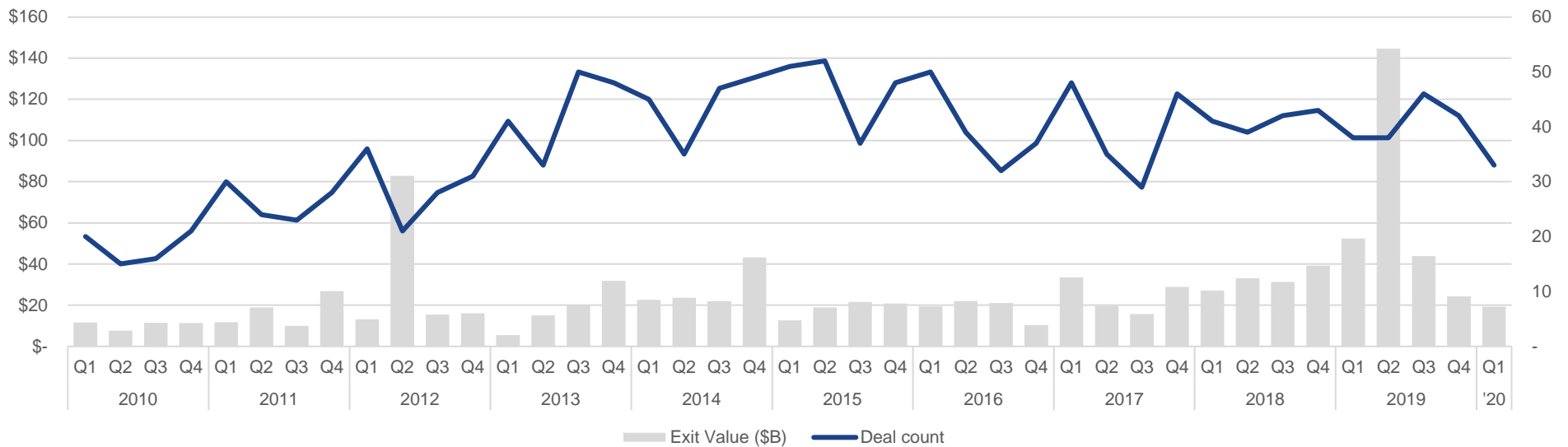


Notable Midwest VC Investments

Date Closed	Target	Investor	Target City	Target Description
02/26/2020	EquipmentShare	Level One Fund, PROOF Fund	Columbia, MO	Provider of construction technology services intended to help contractors and OEMs manage equipment
01/16/2020	Sequoia Sciences	Undisclosed Investors	Saint Louis, MO	Developer of new medicines intended to target bacterial infections and cancers
02/04/2020	Adarza BioSystems	3x5 Partners, Lightchain Capital	Saint Louis, MO	Developer of a biological assay platform intended to measure clinical and point-of-care samples
01/29/2020	Adjuvance	Morningside Venture Capital	Lincoln, NE	Operator of a bio-pharmaceutical company designed to offer vaccines
02/14/2020	NewLeaf Symbiotics	Koch Agronomic Services, Otter Capital, S2G Ventures	Saint Louis, MO	Operator of an agricultural biotechnology company created to develop sustainable agricultural products
01/31/2020	U Drive Acceptance	Undisclosed Investors	Sioux City, IA	Servicer and provider of subprime auto loans to independent and franchise auto dealers
03/02/2020	SimpleRose	Undisclosed Investors	Saint Louis, MO	Developer of a prescriptive analytics platform intended to advance complex operational problems
03/03/2020	DisruptOps	Rally Ventures, Drive Capital	Kansas City, MO	Provider of a cloud management platform intended to bring insight, control, and expertise into the cloud environment
03/31/2020	Artio Medical	NorthPoint Development	Fairyway, KS	Developer of endovascular medical devices for the embolization of vessels, aneurysms, and other vascular structures
02/18/2020	CareSignal	UnityPoint Health Ventures, OSF Ventures, Neuterra Capital	Saint Louis, MO	Developer of a remote patient monitoring platform
03/03/2020	OpsCompass	Elsewhere Partners, Nelnet, M25, Nebraska Angels, Dundee VC	Omaha, NE	Developer of a cloud operation software created to drive operational control, visibility, and security in global cloud platforms
01/14/2020	Ringmaster Technologies	Edison Partners	Overland Park, KS	Developer of a cloud-based healthcare platform designed to enhance administrative processes
03/23/2020	SentiAR	VCapital, Neue Fund	Saint Louis, MO	Developer of a real-time intraprocedural reality platform designed to transform the experience in interventional procedures
03/12/2020	Transactly	Hermann Companies	Saint Charles, MO	Developer of a real estate transaction platform intended to streamline the contract-to-close process
01/02/2020	Tesseract	UMB Bank	Kansas City, MO	Provider of consulting services intended to improve productivity
03/12/2020	SwineTech	Innova Memphis, eMERGING VENTURES	Cedar Rapids, IA	Developer of AI and sensor-based technology applications designed to reduce pig disease and starvation
01/13/2020	Bonfyre	Undisclosed Investors	Saint Louis, MO	Developer of a workplace culture platform designed to deliver technology to reshape employee experience
03/31/2020	InnovaPrep	Undisclosed Investors	Drexel, MO	Developer of sample collection and concentration tools designed to increase sensitivity and enable easier sample preparation

VC Exits Decline After Record Year

Quarterly US VC Exit Activity¹



US VC Exit Highlights

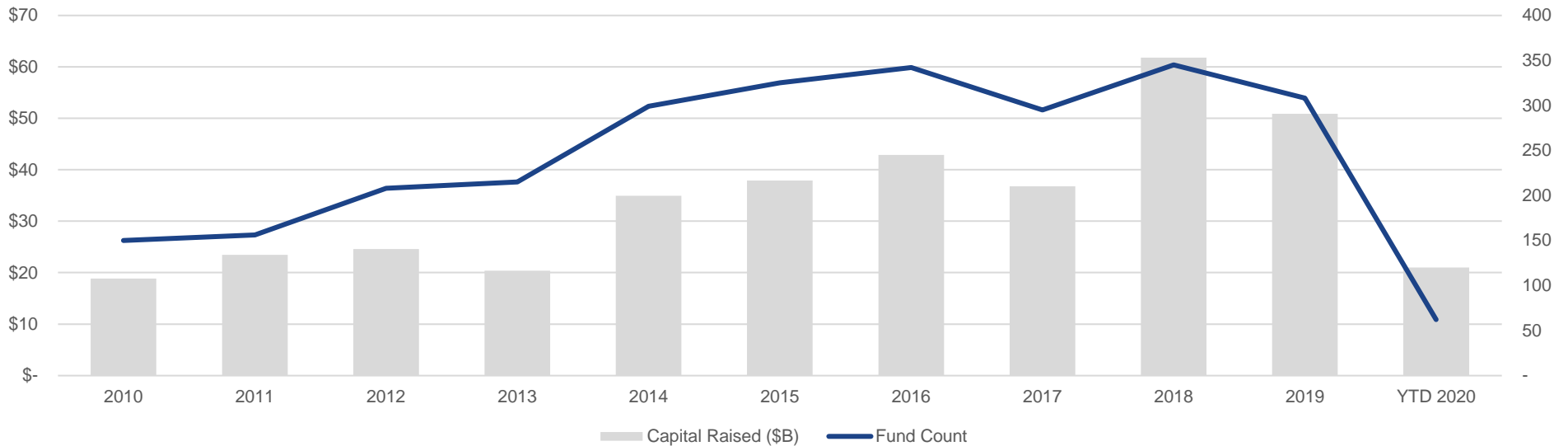
- First quarter exits totaled just \$19 billion across 183 exits, the lowest number of exits since the third quarter of 2011
- The low level of exits is overshadowed by a record-breaking 2019, which included notable exits from Uber and Slack among others
- Acquisitions accounted for the majority of exit value, outpacing initial public offerings, for the first time since 2016
- Exits are likely to slow further with the letup in IPOs and M&A activity, further augmenting additional funding rounds for venture-backed companies

Notable US Q1 Exits

Date	Target	Investor(s)	Consideration (millions, USD)
03/19/20	Emailage	LexisNexis Risk Solutions	\$ 480
01/31/20	One Medical	Public (IPO)	245
02/13/20	Revolution Medicines	Public (IPO)	238
02/06/20	Casper	Public (IPO)	100
02/18/20	Verb Surgical	Johnson & Johnson Innovation - JJDC	N/A
02/03/20	Evergage	Salesforce	N/A

Fundraising Maintains Healthy Levels; Outlook Uncertain

Annual US VC Fundraising Activity¹



US VC Fundraising Highlights

- Fundraising has been robust thus far in 2020, with venture capitalists on track to raise more than \$80 billion for the year
- However, the growing value is spread across fewer funds, with only 62 funds raising capital in the first quarter, far lagging 2018's annual high of 345 funds
- Previous fundraising efforts in 2018 and 2019 have led to record dry powder levels – as much as \$121 billion in mid-2019, according to PitchBook Data
- Depressed equity and credit markets may influence limited partners to re-allocate their portfolios, resulting in potential reductions or a lack of investment in venture capital allocations

Notable US Q1 Fundraises

Date	Target	Acquirer	Consideration (millions, USD)
02/14/20	MGM Resorts (MGM Grand and Mandalay Bay Real Estate)	Blackstone Real Estate Income Trust, MGM Growth Properties	\$ 4,600
01/09/20	Wesco Aircraft Hardware	Platinum Equity	1,898
02/18/20	Masco Cabinetry	American Industrial Partners	1,000
01/02/20	On Location Experiences	ACE & Company	660
02/25/20	Univision Communications Inc	Searchlight Capital Partners, Forgelight	526

Partners for Strategic Transactions

Overview

Skyline Advisors partners with growth stage and lower middle-market companies to successfully position for, and then execute, strategic transactions. Our experience includes sitting on all sides of the deal table – serving as investors in, executives of, members of the board of directors for, and advisors to high-growth companies that have successfully completed debt and equity financings, acquired other companies, and successfully exited through multiple avenues. This experience provides unique perspective on what you are undertaking, and what is required to ensure a smooth transaction and post-closing transition. Our principal's securities and real estate licenses enable a broad offering of services to ensure all strategic options are explored to optimize results.

Services

Mergers & Acquisitions

- Buy-side and sell-side
- Divestitures, spin-offs, and spin-outs
- Management buyouts
- Strategic partnerships

Corporate Finance

- Growth and acquisition capital
- Taking-private transactions
- Strategic investments
- Recapitalizations
- Debt financing (senior and subordinated)

Strategic Advisory

- Valuation analysis
- Due diligence
- Financial consulting and modeling

Industries Served

Industry agnostic with a key focus on the following:

- Industrials
- Food and agribusiness
- Technology
- Healthcare

Professionals


John Gustafson, CFA | 402-827-9905 | john@skyline-advisors.com

- 20+ years in investment banking, PE, and operations
- MBA – Northwestern University
- BS in Accounting – University of Nebraska-Lincoln
- Series 62, 63, and 79 securities licenses

Chris Moore | 402-213-6029 | cmoore@skyline-advisors.com

- 5+ years in investment banking and other finance experience
- MS in Finance – Tilburg University (the Netherlands)
- BS in Business Administration – University of Nebraska-Omaha

Select Transactions

 <p>Acquired by</p> 	 <p>Acquired by</p> 	 <p>Airport lighting division acquired by</p> 	 <p>Acquired by</p> 	 <p>Merged with</p> 	 <p>Strategic transaction with</p> 	 <p>Acquired by</p> 
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