HelloOffice

VC Overview

LOS ANGELES

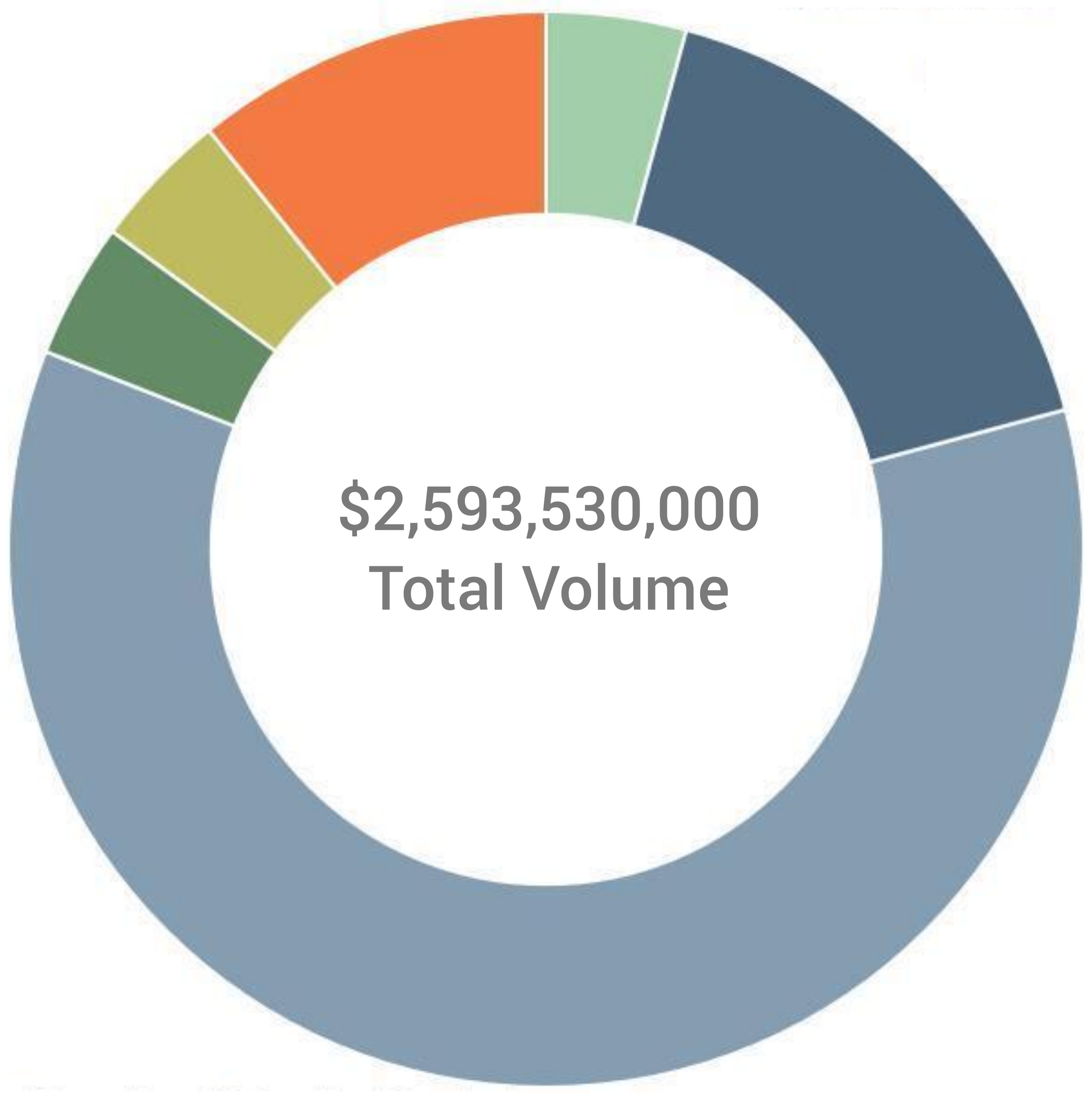
Without question, the world of venture capital is yet another industry drastically affected by the current pandemic. Because the private markets are less volatile than the public markets (primarily due to differences in liquidity), coronavirus-related effects to the VC market will undoubtedly be delayed, impacts surely to be felt in the coming quarters.

According to Pitchbook, despite the crisis emerging in March, Q1 transaction volume in the U.S. was largely unaffected and several mega-deals (over $100M) closed; however, a downward shift in valuations is starting, and the expectation is that this movement could be 2020's new "normal."

Despite expected declines in venture transaction volume over the next few quarters, deal activity isn't likely to have the same fate. To put the future in context, deal value in the U.S. declined 28% during the recession of 2008, yet, surprisingly, deal count **only dropped 5% overall**, with angel and seed activity actually increasing from 2007-2009.

LOS ANGELES - VC DEALS IN 2020

Deal Volume By Industry



Consumer/Personal/Product Tech & Services
$431,150,000

Entertainment/Esports/Gaming/Media/Social
$1,560,560,000

FIRE Tech (Finance, Insurance, Real Estate)
$105,880,000

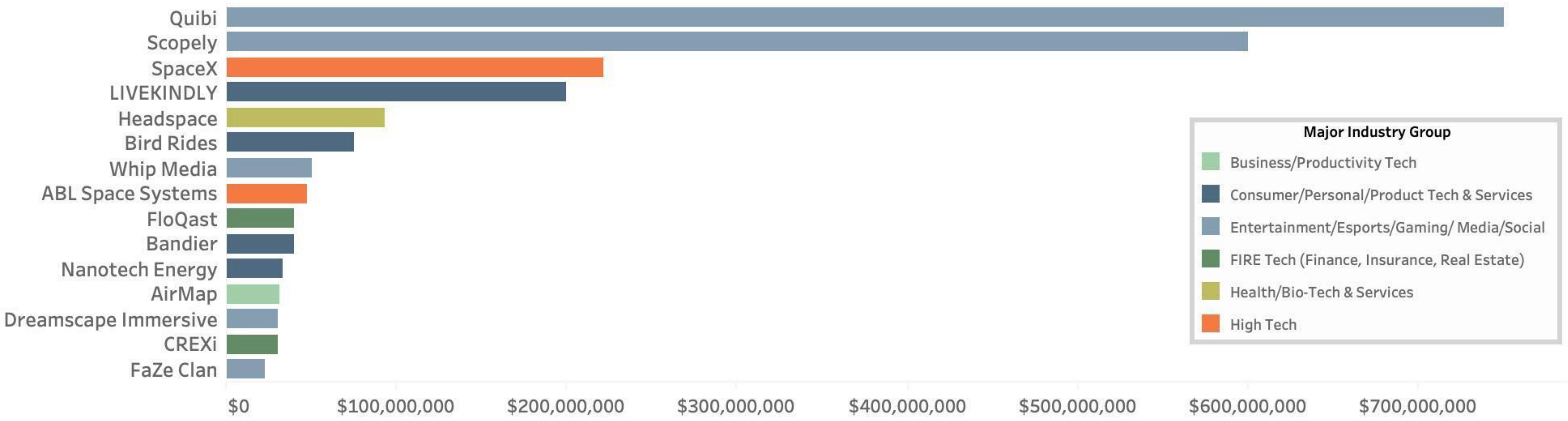
Health/Bio-Tech & Services
$107,770,000

High Tech
$279,330,000

Business/Productivity Tech
$108,840,000

Source: Pitchbook/HelloOffice

LOS ANGELES - TOP 15 DEALS BY INDUSTRY



LA top industries funded in March:

Entertainment and Consumer Tech & Services with a significant portion coming from the launch of Quibi.

Source: Pitchbook, HelloOffice

Today's VC and startup ecosystem has matured considerably over the last decade, with more diverse portfolios, established players, and data-derived companies born than ever before, which could potentially lead to more funding resilience and overall stability than the last downturn.

At its peak, deal volume nationally in 2007 totaled $38B across 4,353 deals. Comparatively, in 2019, total value was $135B across 11,844 deals and in Q1 of this year alone, deal volume totaled $34.2B across 2,298 deals (53% of 2007's total deal volume).

In 2000, the well-funded tech boom was internet based, but with no tangible product, this "boom" quickly busted the following year, setting off a slight recession. When tech firms vigorously re-emerged in 2009 after the Great Recession, again there was robust VC backing, but even though there were products and services to drive profits, scalability and growth potential defined that cycle.

Technology typically pulls us out of a recession and the next wave of tech advances will enable us to evolve and ultimately recover from both this sharp downturn and the pandemic, as will venture funding.

As we begin to re-evaluate our businesses and strategic decisions, so too will VCs - likely requiring definitive proof of profitability and strong operating margins, over "growth at all costs" before investing large sums of money. "New ventures" funded might be more aptly described as "2-5 year old ventures" and the microscope for founders will likely be magnified as well.

The immediate challenge faced by venture capital and other industries alike is the obvious reality that in-person meetings are nonexistent for the foreseeable future, leading to a natural lull in sourcing new deals and subsequent decline in consistent due diligence for new ventures.

Additionally, portfolio management is a critical element for many VCs who are expected to protect and augment their existing investments, rather than allocating dollars (and risk) toward new investments.

Of the 1,398 VC-backed companies in LA County, according to Pitchbook, 86% of them are located west and southwest of Downtown LA, which may make that region more susceptible to near-term rent depreciation as landlords compete with built-out sublease space left by some of the COVID-19-affected tenants.

A key silver lining is what's around the corner—the boomerang. It's a common belief that many of the most successful companies today were formed during a recession, likely a result of many factors including: a lack of customers to "lose" coupled with the ability to ride the inevitable economic wave of expansion.

The last downturn is responsible for the birth of companies such as Slack, WhatsApp, Github, Airbnb, Uber, Waymo and Pinterest. With $121B in dry powder as of mid-year 2019, according to Pitchbook, VCs can still provide quite a bit of runway for venture-backed businesses, even if their investment focus will mainly be on their current portfolios.

As many future entrepreneurs are crafting their next big idea, one mantra in particular seems insightful: "When you have nothing to lose, you have everything to gain."

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INDUSTRIES TO WATCH

HEALTH & BIOTECH
With advances in the race for critical vaccines, telemedicine and mental wellness applications and remote patient monitoring devices

FOODTECH
With expanded delivery options and future kitchen robotics and automation

MOBILITYTECH
Though suffering right now, could draw urban commuters away from public transit, and reimagined e-bikes and e-scooters could be a compelling transportation option for those wary of sharing spaces

EDTECH
As education becomes increasingly mobile, accessible and immersive