AXA
Venture Partners

February 2020

AVPapers

What we have seen in 2019 and how we imagine 2020?

2019...

2019 was another super strong year for many companies in the AVP portfolio and we are so proud to support the growth of these outstanding companies.

At AVP in 2019, we invested in **4 new companies**: **Jobble**, **Incepto**, **Hub Security** and another incredible **SaaS company**, to be disclosed shortly... For our existing portfolio, we have seen in 2019 a strong acceleration with significant and successful fundraises (Security Scorecard, Contrast Security, Phenom People, Policy Genius...)

More than **$100m** have been deployed by our teams to support entrepreneurs and world class tech funds across the globe. We will continue in 2020 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 exciting year, **we asked our team their perspectives** on what were the main themes in 2019 and which one they believe will carry over into 2020, as well as new trends and technologies they think will emerge.

What have we seen in 2019 ?

FRANÇOIS ROBINET
Managing Partner

SecurityScorecard | happytal

2019 has been somehow a wake-up call in private markets, and especially in Venture and Growth. Many have pointed out in recent years that there was some elements of irrationality in the Venture and Growth markets, both because of the level of valuation reached but also because there was less discrimination between good investment case (growth, but with a path to profitability) and not so good investment cases (mainly stories, without clear business merits).

The failed IPO of Wework, but also the very painful post-IPO trajectory of highly visible tech companies (Uber, Jumia…) has shown that the public market is much less forgiving that the private market. Much less forgiving, or rather much more discriminating. Because there has been quite successful IPOs in 2019: Datadog (+16.3 % since IPO), Zoom (+17.7 % since IPO). In fact, tech companies that have a clear business model, that remains capital efficient and that have understandable unit economics do succeed after the IPO. On the other hand, companies, even large ones, even very well funded by VCs, but with very unclear business models, with high cash burn, with non-proven unit economics, are punished in public markets.

I would argue that the public market, thanks to the intense research on large cap public companies and thanks to the work of equity analysts, is much more efficient (in the academic sense of market theory) and much more discriminating than the private market.

There is always a very important component of risk in venture and growth investments: investing in loss making companies, with very rapid growth, implies necessarily to make some bets, to believe that a certain number of things will happen. However, risk doesn't mean pure gamble and in the end, Venture and Growth investors still invest in businesses, not in dreams! And the goal of any business, however tech-based they are, however "cool" they are, is to generate cash at some point. Without a path to profitability, even if it is uncertain, without clear understanding of basic unit economics, and in particular a clear understanding, of how many dollars should be invested in order to generate one dollar of sales, this is more a gamble than an investment and analysts in the public market don't like gamble.

For us in AVP, this wake-up call in 2019 is good news. The fact that, following 2019, there should be more rationality in the market overall, in terms of the quality of the businesses being funded and in terms of valuation, supports our approach of being disciplined, data driven in our investment processes. We hope (and we expect) that this trend will continue in 2020.

We expect in particular that capital inefficient companies, which cannot demonstrate sustainable growth, will struggle and we might even see a little bit of "blood on the wall" for some high-profile companies...

ALEX SCHERBAKOVSKY
General Partner, Growth

The war for talent is becoming more prominent with companies looking for innovative ways to attract and retain employees. Several AVP companies benefit from this trend, including **Phenom People** that is experiencing tremendous growth and that recently raised a Series C financing to take advantage of this market opportunity. Phenom allows companies to deliver a hyper-personalized candidate experience that appeals to the modern-day job seeker. This results in a **5x** increase in job applications and **3x** increase in application conversion, allowing companies to find and hire the right candidates. As the employment landscape shifts to more flexible work arrangements, technology can facilitate connections between workers and companies.

We recently led an investment in **Jobble**, a leading marketplace for gig economy workers, which is helping companies such as Uber and Amazon compete in the gig economy. Jobble allows gig economy workers to find the right opportunities for them in their local area that suit their interests and fit their schedules. Jobble allows companies to easily and cost-effectively find, interview and pay workers to satisfy immediate needs in specific geographies.

As technology becomes a more prevalent part of our lives, companies such as Phenom People and Jobble use artificial intelligence and machine learning to help companies compete in the war for talent.

IMRAN AKRAM
General Partner, Growth

Over the last decade we have seen customers get comfortable communicating with enterprises in ever more channels. Email, phone, facebook messenger, whatsapp, web chat and in app notifications are all now standard and customers all have different preferences at different times. The days when there was tolerance for disconnects in the conversations across channels are disappearing and organisations are working out how to respond. Organisational barriers are harder to deal with than technological barriers but the time of siloed and channel focused call centers, email teams and so on has passed.

In 2019 there has been the emergence of a number of truly multi-channel customer communication platforms, that also offer the benefit of integrating customer data across all these channels.

The prize for enterprises is finally to have a true single view of the customer and we are seeing this a differentiator for companies that do it well. This process is well established, and we have also now seen the first organisations that organised their customer acquisition around the customer, with teams by customer segment rather than letting organisational constraints be the driver.

MANISH AGARWAL
Genral Partner, Early Stage

Policygenius | Verifly | qloo | mindoula

2019 was another bumper year for healthcare investing with about $5.5 billion invested through Q3, 2019. We continue to see substantial investments in all areas of healthcare — life sciences, digital health, tech enabled services, etc. We believe that this driven, in part, by the increased national focus in the US on healthcare costs and the realization that startups have a valuable role to play in improving outcomes and reducing costs. In our view, companies that stood out in 2019 were the ones that could show sustainable outcomes (either clinical or cost, or both). We also continue to see an increased focus on mental health solutions as that is a rapidly growing segment of the market. Investing in digital health companies is one of our core areas of focus.

We continue to look for companies that have shown sustainable outcomes and ROI and built business models with clear monetization approach.

DOMINIC MAIER
Partner, Fund of Funds

2019 was the end of a transformational decade for technology with the most valuable listed businesses globally now tech companies and with consumer behavior forever augmented and enabled by smartphones and apps. At the same time, venture capital has graduated from being a San Francisco / Bay Area centric cottage industry into a truly global asset class with many thriving ecosystems.

Record-breaking venture funding throughout the decade culminated in a tumultuous year with innovation in IPOs through direct-listings and discerning public investor sentiment towards capital-intensive business models without a clear path to profitability.

What do you anticipate for 2020 ?

IMRAN AKRAM

In 2020 I think we will see businesses start to implement meaningful policies to address **gender imbalances** especially in the tech ecosystem. It is manifestly the right thing to set up our societies and companies so that both men and women can perform at their best, helpfully here the right answer is also better for organisational decision making, forecasting and culture. In the past there have been token steps but we expect to see meaningful changes in organisational recruiting, working practices and promotion criteria in 2020 and beyond.

There are simple concrete steps like 50:50 gender requirements on recruiting shortlists or objective and regularly communicated criteria for promotions that can easily be adopted and are proven to have a positive impact on gender balance. We are making these changes ourselves and promoting them in our portfolio companies as well! The fact that many startups are already flexible employers, open about remote working and better than many at measuring performance with data rather than face time is a great starting point in this journey.

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.

ALEX SCHERBAKOVSKY

As the markets learn from corrections in unicorn valuations, we anticipate investors to place greater emphasis on **underlying business fundamentals** such as unit economics and path to profitability. Often rapid growth and ready access to inexpensive capital can mask fundamental flaws in a business model such as inefficient customer acquisition or poor customer retention. Some management teams rationalize poor unit economics by telling a story about gaining market share and building a competitive moat through market leadership. While it sometimes does make sense to temporarily relax unit economic constraints such as sales efficiency to gain scale and establish credibility in the market, the best in class companies can achieve rapid growth while maintaining healthy unit economics.

Capital efficiency and focus on strong unit economics is already a core component of the AVP investment philosophy, and we expect more entrepreneurs to be running their businesses in a way that fits with our investment profile.

MANISH AGARWAL

We expect healthcare funding to stay strong in 2020. In particular, we feel there will be strong demand for companies that have cracked the code on monetization and sustainable, verifiable improvements in the quality / cost of care delivery. Wr also expect continued interest by the public markets / strategic acquirers in disruptive companies in this space. As in 2019, we expect innovation to be fairly widely spread geographically both within the US and worldwide.

For AVP, digital health will continue to be an important area of focus in 2020.

...2020

FRANÇOIS ROBINET

In addition to a greater focus on sound business model because of the possible fallout of highly visible companies in 2020, and hopefully, more discipline in valuation (although I am not sure about this one....), I believe we will see more innovation in the market for the financing of tech companies: direct listing will slowly replace underwritten IPOs, at least for the best companies; more M&A activity will be seen in Europe on tech companies, as R&D budget of large corporate will be increasingly supported by M&A budget and some new « next frontier » topics such as quantum computing will start to attract significant venture money.

Regarding « hot » sector, cyber security will clearly continue to be an area of focus for one simple reason, which is that cyber crime will reach new highs in intensity and in severity in 2020. It is possible that we see large scale attacks against core Internet infrastructure (and not only networks) and that individuals become the target of choices given the high level of vulnerability of most home networks. New defense strategy, new technology, in particular based on AI, new response tactics will emerge as long as we remain focused on a few clear investment thesis. As long as we discriminate well and as long as we bet not only on good technology, but also strong entrepreneurs that can execute perfectly, it is clear that this environment should provide amazing investment opportunities.

DOMINIC MAIER

As we enter the new decade, we believe that recent public market discernment will drive more venture investors, across all stages, to evaluate business model risk and capital intensity in more detail. In spite of this, we feel that the large amount of dry powder in the market should ensure that any re-calibration of risk is not drastic.

Finally, whilst traditional areas of venture investing will continue to attract the majority of capital, we feel that some frontier technologies (quantum computing, blockchain, computational biology, etc.) will start to gather momentum during 2020.

THE AVP PLATFORM

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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

DIRECT INVESTMENT
$ 425M
EARLY + GROWTH

FUND OF FUNDS INVESTMENT
$ 175M
FROM EARLY TO GROWTH

5 OFFICES

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

18+ TEAM SIZE
40+ DIRECT INVESTMENTS
14+ FUND INVESTMENTS

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We invest in great entrepreneurs.
We support outstanding companies.

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