



IKOVE  
STARTUP NURSERY

# Q1 2020 INSIGHT

As Q1 2020 is behind us, we are writing this update from our homes. It is hard to believe the events that have transpired and the huge impact they have had in our day to day lives. With over 4 million people infected globally, and over 272,000 deaths, our thoughts, and prayers are with all impacted.

We had been following COVID-19 closely as it spread quickly in China and the unprecedented measures taken by the Chinese to contain the

virus. We learned from our teams in Hong Kong and Shenzhen and our relationships in Korea what the potential impact of the virus could be and what societal impacts they could potentially bring to us. We were lucky to have access to those lessons early and be able to apply those into action.

Unfortunately, as we all well know, COVID-19 has spread worldwide and has hit the global economy and all asset classes in unprecedented ways.

## I. Market and Economic Impact

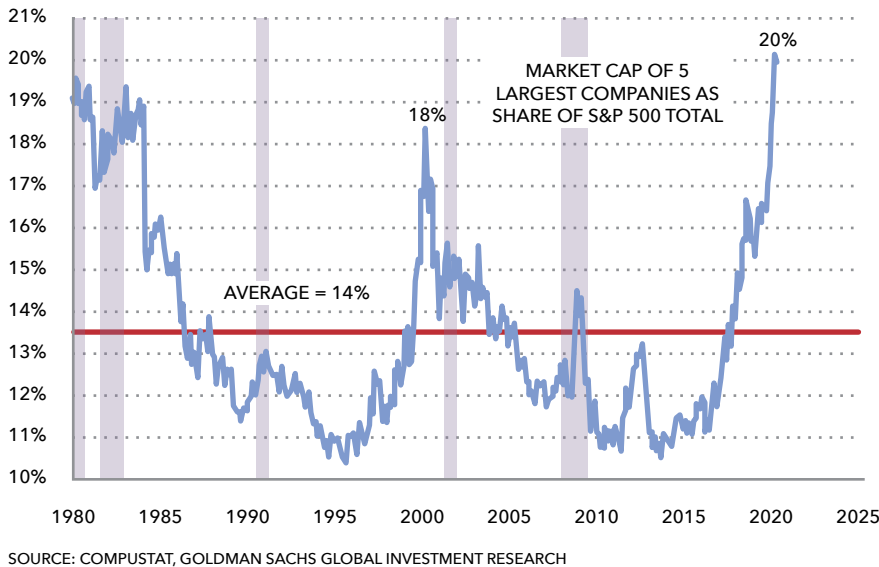
Stock markets worldwide have taken significant losses in Q1 with volatility hitting unprecedented levels.

INDICES		STOCK MARKET INDEX PERFORMANCE			
		YTD*	Q2 2020	Q1 2020	2019
US	DJIA	-14.99%	14.69%	-23.47%	23.76%
	S&P500	-10.24%	16.59%	-20.34%	30.43%
	NASDAQ	-1.66%	19.17%	-14.82%	37.89%
	RUSSELL 2000	-21.79%	16.22%	-31.20%	23.95%
ASIA	NIKKEI 225	-13.41%	8.07%	-18.88%	20.36%
	SHANGHAI	-6.73%	4.25%	-10.31%	22.11%
	HSI	-12.76%	5.47%	-16.45%	9.16%
EUROPE	DAX	-17.92%	13.02%	-24.92%	26.45%
	FTSE 100	-21.76%	4.04%	-24.80%	12.10%
	CAC	-24.01%	7.33%	-26.93%	28.78%
BRAZIL	BOVESPA	-30.39%	10.27%	-36.86%	31.95%
VOLATILITY	VIX	153.71%	-40.48%	74.86%	-49.96%
COMMODITIES	GOLD	11.68%	6.17%	4.91%	18.16%
	WTI CRUDE OIL	-75.55%	-26.72%	-67.21%	33.32%
BONDS	US10Y YIELD	-67.31%	1.97%	-63.32%	-27.64%
CURRENCIES	EUR/USD	-3.07%	-1.37%	-1.70%	-2.54%
	GBP/USD	-5.91%	0.48%	-6.65%	2.85%
	USD/JPY	-1.90%	-0.79%	-0.59%	-0.69%
	USD/BRL	32.81%	2.52%	29.27%	3.50%

\* AS OF APRIL 30, 2020

## THE CONCENTRATION OF MARKET CAP IN THE LARGEST STOCKS HAS SOARED

AS OF APRIL 23, 2020

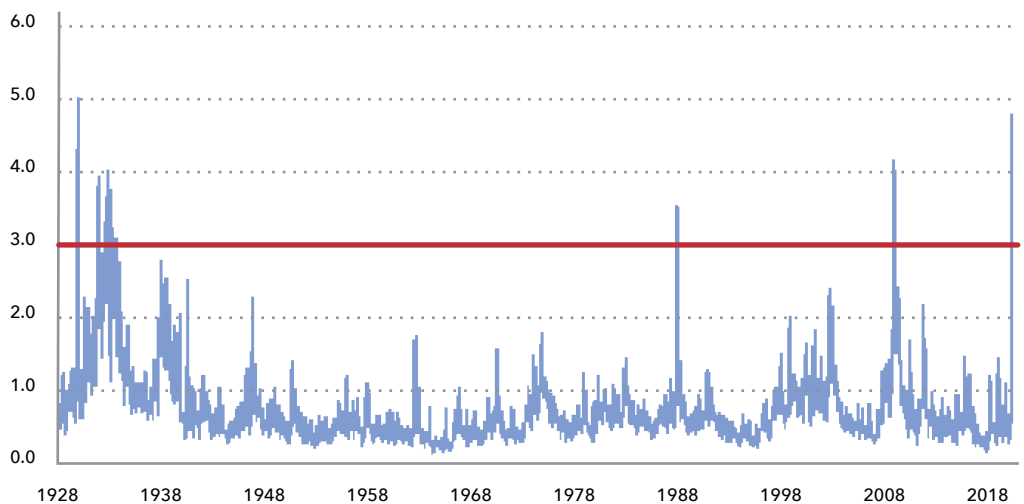


We have seen a positive start of Q2, however, most of the upside coming from a concentrated number of stocks creating wide dispersion of returns.

According to analysis done by Bespoke Invest, "Over the last five weeks of Q1, the S&P 500's average absolute daily percentage change has been +/-4.8%. That's higher than we saw at the height of the financial crisis, after the 1987 crash, and in the late stages of the Great Depression. The only time the S&P's average daily move over a five-week period was greater was after the Crash of 1929."

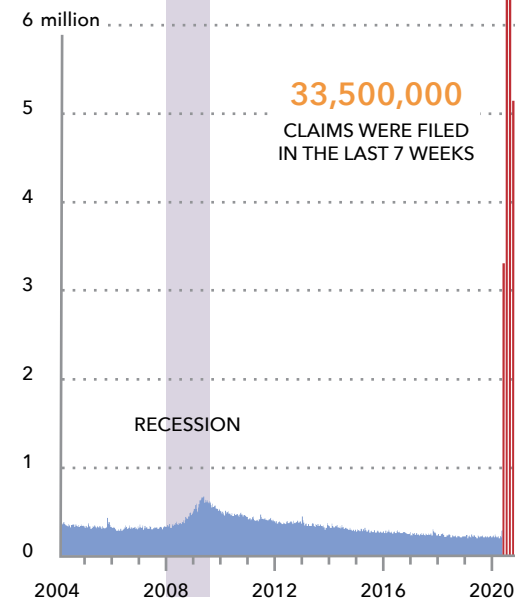
### S&P 500 AVERAGE DAILY PERCENTAGE MOVE (%): 1928-2020

50-DAY AVERAGE



### INITIAL JOBLESS CLAIMS, PER WEEK

SEASONALLY ADJUSTED

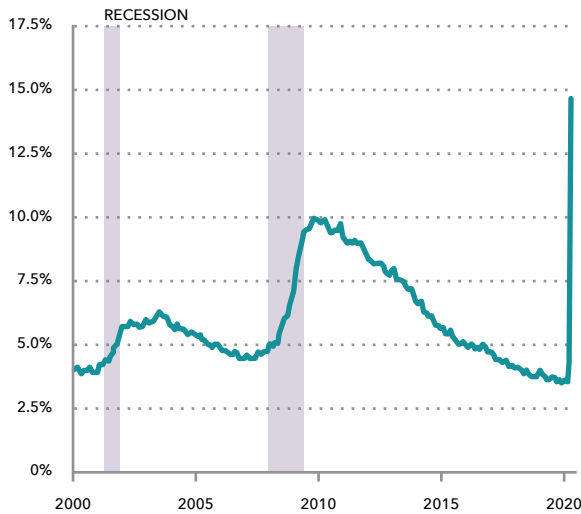


On the economic impact, since mid-March jobless claims in the US have skyrocketed to 33.5 million, a number hard to fathom. For comparison, during the Financial Crisis of 2008/09, jobless claims climbed to 665 thousand at its worst, and 695 thousand during the 1982 recession. It took the US economy close to a decade to gain back the job loss created during the 2008/09 financial crisis. The impact of COVID-19 has been fifteen times larger in just two single weeks and unwound a decade of recovery. Important to note that in early March, unemployment claims in the US had hit a five-decade low.

SOURCE: DEPARTMENT OF LABOR - THE NEW YORK TIMES

## US UNEMPLOYMENT RATE

SEASONALLY ADJUSTED



SOURCE: LABOR DEPARTMENT VIA THE ST. LOUIS FED

With Q1 GDP dropping by 4.8 percent and expectations anywhere from 20-35 percent drop in Q2 paint a dire picture with unemployment expected to hit 20+ percent, with April unemployment skyrocketing to 14.7%. Those Q2 numbers are equivalent to Depression era contractions and have generated strong calls to reopen the economy, a risky exercise currently being implemented by several States.

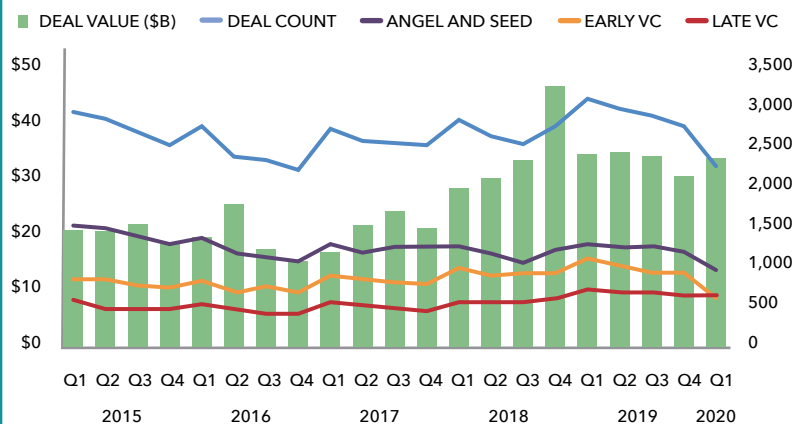
The good news is that most economist expect a V shape recovery with GDP stabilizing in Q3 and growing substantially in fourth quarter and first quarter 2021.

## II. Impact on Startups

Q1 venture capital (VC) deals in the US have held up quite well, mostly due to mega rounds and deals that had been negotiated pre COVID-19. The good news is that US VCs are sitting on approximately \$120 billion in dry powder so there is significant capital to support existing portfolio. However, as the bulk of the issues with COVID-19 really hit towards mid-March, we expect significant impact to start to show in Q2.

### STRONG Q1 MEGA-DEAL ACTIVITY SHOWS IN DEAL VALUE BUMP OVER Q4

US VC DEAL ACTIVITY BY QUARTER

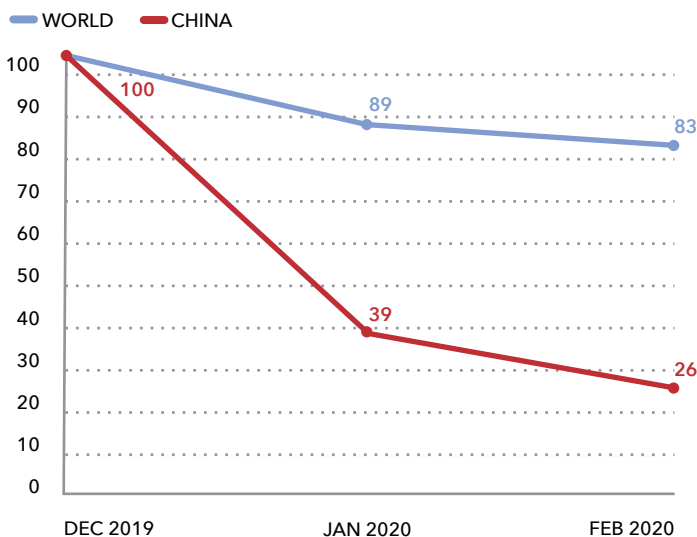


SOURCE: PITCHBOOK-NVCA VENTURE MONITOR \*AS OF MARCH 31, 2020

### CHINESE VC DEALS DROPPED 57% VS. THE REST OF THE WORLD

NUMBER OF SERIES A+ DEALS

INDEXED TO DEC 2019



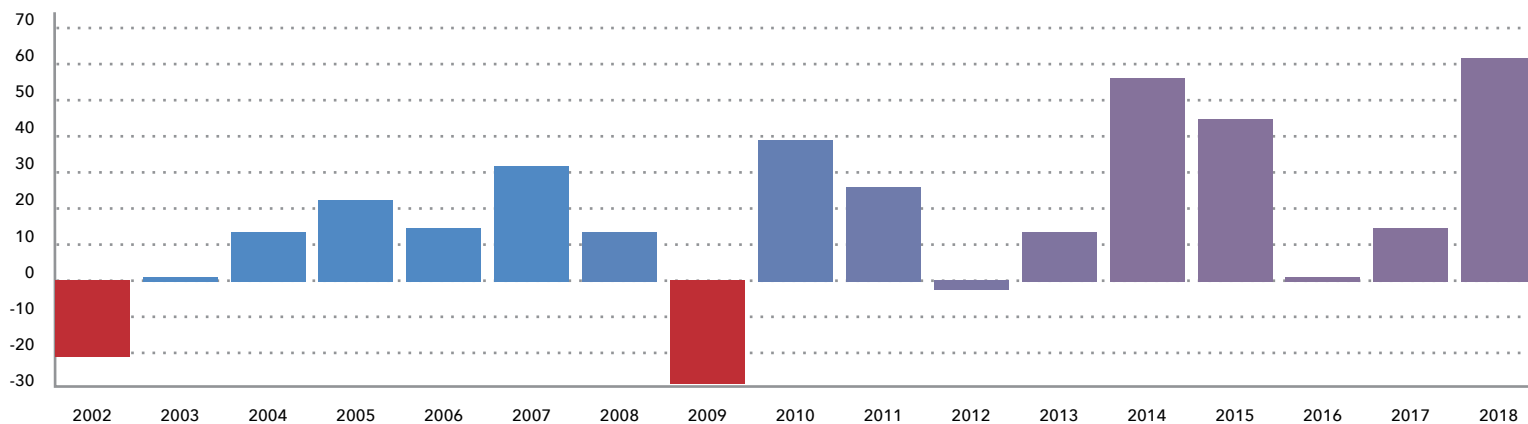
SOURCE: ARNOBIO MORELIX, STARTUP GENOME CALCULATIONS FROM PITCHBOOK

For instance, Chinese VC deals have dropped by 57 percent versus the rest of the world. If we take the Chinese market as a proxy, we could see a drop of \$30-\$40 billion in startup investments in 2020. There is a lot of variability on those numbers and they will depend how deep and long the recession will be, and how steep the recovery.

During the last two recession, VC investments dropped between 21-39 percentage points, which would be equivalent to \$86 billion in today's levels and the number of IPOs dropped on average by ninety percent. It took anywhere between one and three years for numbers to go back to pre-recession levels.

## VC INVESTMENTS DROPPED BETWEEN 21.6% AND 29.3% IN THE PAST TWO ECONOMIC CRISES

% CHANGE IN GLOBAL VALUE (\$) OF VC INVESTMENTS



SOURCE: ARNOBIO MORELIX, STARTUP GENOME CALCULATIONS FROM PITCHBOOK

## III. The Response

In early March, when the virus had jumped to Europe, with hard-hit Italy as the initial epicenter, we began to enact plans across the board to reduce the burn rate of our portfolio companies to sustain a longer impact of COVID-19.

As it became clear that the impact in the US was going to be significant, we were able to materially extend current cash positions in most cases by cutting payroll, substituting pay with options for eligible employees, and reducing non-critical personnel and operating expenses where applicable. We are proud to say that not a single employee of the core Startup Nursery team was

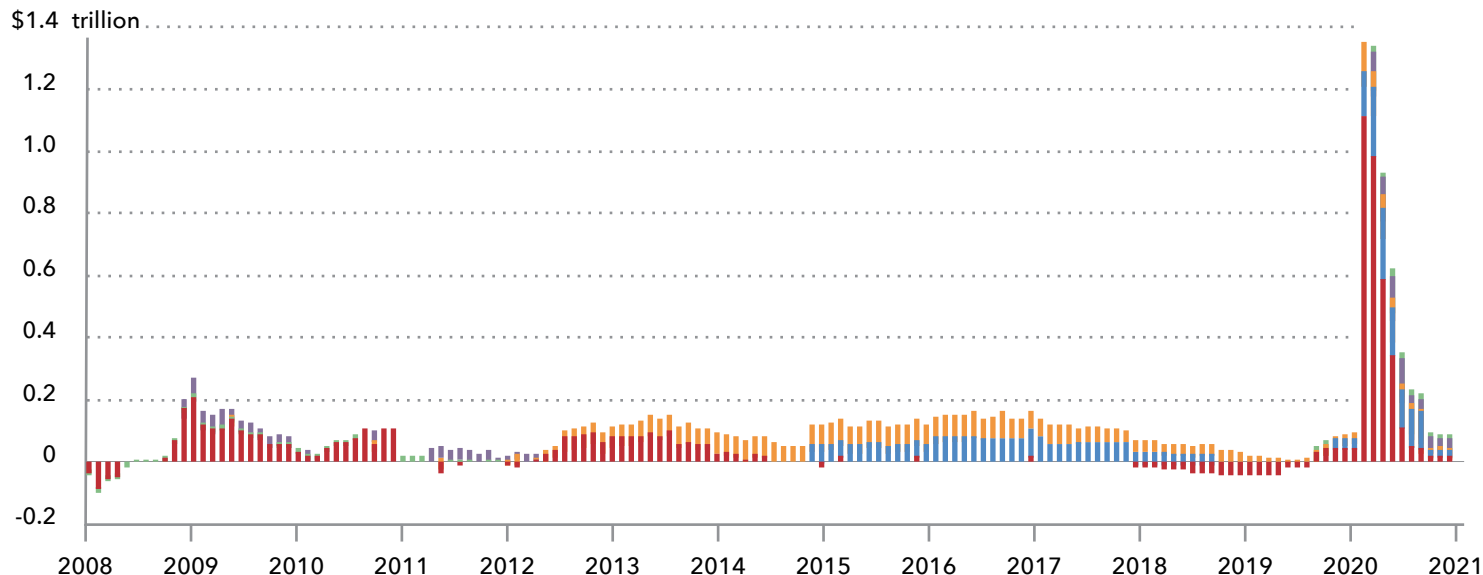
let go and we continue to work hard to support our portfolio and launch new companies successfully.

In response to the unheard-of economic impact the Federal Reserve and other G7 central banks have unleashed an unprecedented quantitative easing response, purchasing close to \$1.4 trillion of debt in the open market. Therefore, shoring up much needed liquidity, bringing interest rates to zero and launching a \$2.3 trillion program to support businesses, local government and direct small business lending.

## QUANTITATIVE EASING

NET ASSET PURCHASES FOR G-7 CENTRAL BANKS APPROACHED \$1.4 TRILLION IN MARCH

■ FEDERAL RESERVE ■ EUROPEAN CENTRAL BANK ■ BANK OF JAPAN ■ BANK OF ENGLAND ■ BANK OF CANADA



SOURCE: BLOOMBERG ECONOMICS

## The Federal Reserve has also launched a \$2 trillion program aimed at:

**Main Street Lending Facility:** This program will be built by the Federal Reserve to serve businesses of all sizes with loans, loan guarantees and other investments. Details are not yet completely known on this, but more information should be coming soon.

**Treasury Mid-Size Business Lending Facility:** The Department of Treasury will construct a lending facility to provide direct financing to banks and other lenders that make direct loans to companies with between 500-10,000 employees. These loans will have rates capped at 2% and a required six-month grace period before repayment.

## On March 27th, 2020, the US Congress enacted the Coronavirus Aid, Relief and Economic Security (CARES). There are several programs encompassing the act, including:

**Paycheck Protection Program (PPP):** a \$349 billion phase 1 and \$310 billion phase 2 \$310 billion program for businesses with less than 500 employees. We are applying for all of the businesses that have payroll on April 3rd when the applications will begin to be processed. This is a forgivable loan that is calculated as 2.5 times the average payroll and can be used to pay payroll, benefits, rent and utilities over an eight-week period.

**Emergency EIDL Grant Advance:** a \$10,000 advance against Disaster Loans (see below) for businesses that have been in existence for at least one year. It can be used for payroll, rent and other costs resulting from COVID-19. The \$10,000 grant reduces the PPP loan forgiveness amount. We have applied for several of these and anticipate getting funds in the first week of April.

**EIDL - Disaster Loans:** Ikove and several of the portfolio companies have already applied for Disaster Loans. These loans are being processed through the SBA and may take several weeks to get processed. The loans are unsecured if less than \$25,000 and collateral may be requested or required over that amount. The loans have 3.75 percent interest rate and amortize over up to 30 years. The loan amount is based on a determination of the economic injury the business has suffered which will be determined in discussion with the SBA.

## The State of Ohio has also launched, several programs including:

**Shared Work Ohio:** This program allows an employer to reduce hours and/or pay temporarily by 10-50 percent and the State of Ohio makes up the difference in order to keep people employed and avoid unemployment. It's a win-win for the employee and employer. This program is ideal for one or more of our portfolio companies.

**Business Interruption Insurance:** the State of Ohio passed legislation forcing property and casualty insurers to cover COVID-19 related business interruption, however, we have been told by many that if enforced would bankrupt the insurance industry and therefore we should not count on this. We have not filed a claim and are waiting for more information on this opportunity.

**Unemployment:** the State of Ohio in coordination with the Federal Government has temporarily increased the unemployment benefits for laid off workers. This is always a difficult decision, however, several of our portfolio companies have had to lay off workers with the expectation that we can rehire them as soon as possible. The current benefits provided by the State Unemployment Program make it easier on the employee at this time and it does not negatively impact our experience rate used to calculate our unemployment insurance premiums.

As COVID-19 continues to significantly impact business in the US it is clear to us how important the Startup Nursery is in supporting the leadership of our portfolio companies. We created an internal task force focused on applying

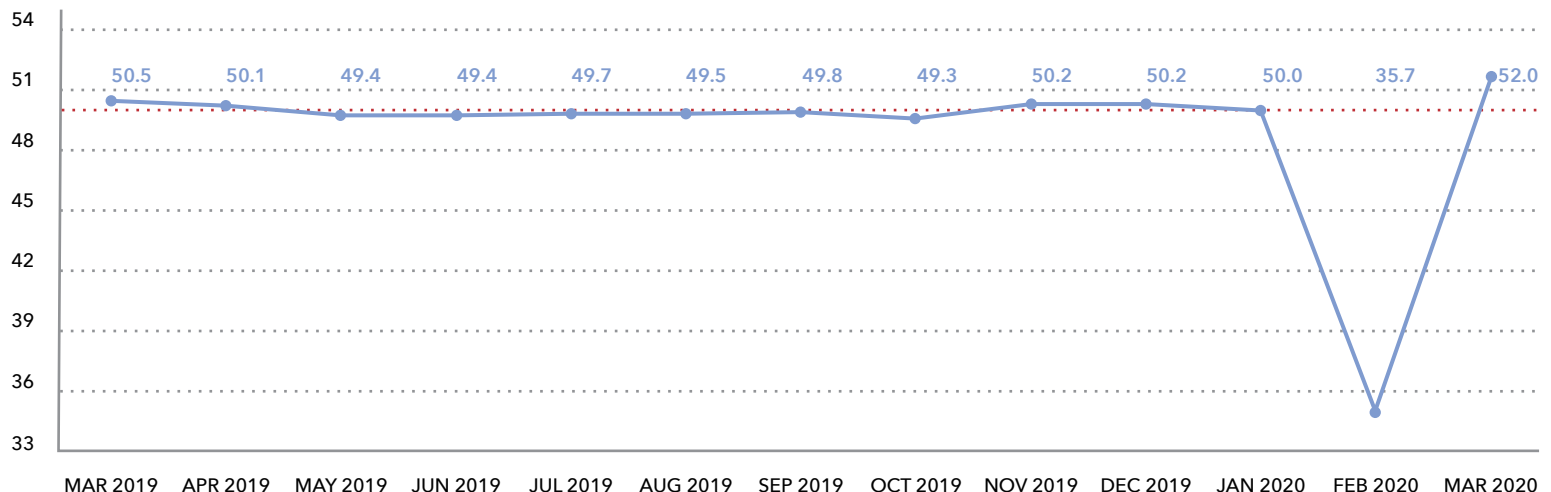
for Federal and State disaster funds to work closely with our CEOs and support our ecosystem. We have utilized the full force of Ikove's infrastructure in helping our portfolio companies.

## IV. Projected Outcome

We expect these programs to help alleviate the economic impact on our ecosystem while maintaining our ability to capitalize and reinvest quickly when the rebound comes.

We, along with many of our peers, leading market experts, and participants, anticipate a similar recovery in the USA as the V-shaped recovery thesis that we believe is starting in China, where PMI has risen sharply in March to expansion levels.

### PURCHASING MANAGERS INDEX (PMI)



## PATH OF US EQUITY MARKETS IN 2020

S&P 500 WILL FALL TO 2400 MID-YEAR BEFORE RALLYING TO 3000 AT YEAR-END

PATH OF THE S&P 500 MARKET IN 2020



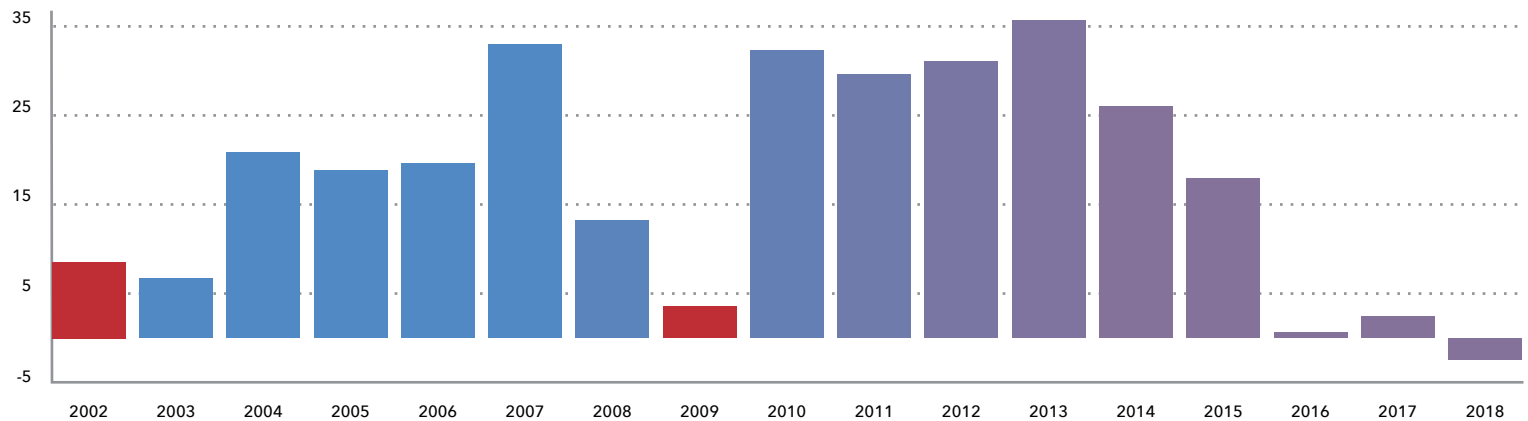
SOURCE: GOLDMAN SACHS GLOBAL INVESTMENT RESEARCH, AS OF APRIL 27, 2020

Given how the situation is improving in China and our local Chinese teams starting to go back to work, we are optimistic that given the economic support to the crisis, we could see similar recovery in the US and are preparing for a strong rebound in the latter half of 2020 and into 2021. Goldman Sachs expects Q3 GDP to grow by 19 percent and the S&P to end the year at around 3,000.

*We need to keep in mind that Crisis begets opportunity - Over half of Fortune 500 companies were created during a recession or bear market, and 50+ tech unicorns, collectively valued at \$145.2 billion, were founded during the 2007-2009 recession years (Dane Stangler)*

WHILE THE TOTAL VALUE OF VC DEALS DROPPED DURING THE PAST TWO ECONOMIC CRISES, THE NUMBER OF COMPANIES GETTING FUNDED GREW

% CHANGE IN GLOBAL NUMBER (COUNT) OF VC INVESTMENTS



SOURCE: ARNOBIO MORELIX, STARTUP GENOME CALCULATIONS FROM PITCHBOOK

*While startup deal values declined during the last two recessions, deal counts have risen, suggesting that cash efficient startups, like the ones we launch via the Startup Nursery, have a greater chance of accessing funding during difficult times. This has been further evidenced by our networks continued and ongoing investment activities with Ikove. As LPs gain more visibility to better assess their value range across various*

*asset classes, rebalance their portfolios, adjust for the denominator effect, and opportunistically allocate into equities at a discount, we expect to see a meaningful inflow of capital towards select/quality alternative investments opportunities in 4Q20-1Q21, inclusive of our quality portfolio companies and the Ikove model.*



As we work through this and manage a significant contraction in Q2, we are confident that we will get out of this crisis in a very strong position. Our SUN Fund has significant liquidity, our core team is intact, our companies have proactively cut burn rate to thrive during the contraction, and investments in innovation will provide the Startup Nursery with outstanding opportunities to invest in Deep Tech.

We feel confident that the Startup Nursery and our portfolio will be well positioned for success when the new growth cycle commences.



### **Flavio Lobato**

*Co-Founder and Principal, Ikové Capital*

Flavio Lobato is Principal and Founder of Ikové Capital Partners, a Venture Development investment company focused on commercializing life changing technologies in partnership with leading research institutions.

Previously, Flavio was an Executive Director at Liongate Capital Management, a multi billion alternative investment manager based in London and New York which was sold to Principal Global Investors. Additionally, Flavio was a Founder, and CIO of Swiss Capital Asset Management in Lugano, managing over \$1.5 billion in hedge fund investments for institutional clients. Flavio was a VP at Goldman Sachs & Co. and a Director at Credit Suisse First Boston.

Flavio received his MBA from Harvard Business School with honors, and his undergraduate degree in International Finance and Marketing from the University of Miami, cum laude. Flavio is Co-Head of Fintech for Harvard Angels of NYC. He serves as Chairman or on the Board for several high profile startups. He is a guest author at Venture-Beat, VC-List, Forbes and Alpha Week and has been featured in several podcasts.

**THANK YOU**



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