The best defence is a good offence

Fund managers need to start looking beyond the immediate impact of the Covid-19 crisis and prepare to play offence on the M&A front, LPs have warned.

The majority of GPs have been proactive in reaching out to investors. In a survey conducted by the BVCA, 90 per cent of investors indicated that their GPs are providing regular updates on Covid-19 safety measures. And yet, the most useful GPs were able to predict the cascading impacts of the pandemic. Fund managers that have a more forward-looking approach and are able to identify the less obvious challenges to arise from global market dislocation, are going to be able to better differentiate themselves. "Most GPs have been very quick to tell investors that they are playing good defence, but they also need to show how they plan on playing good offence on the M&A front," Yup S. Kim, senior portfolio manager at Alaska Permanent Fund Corporation, said.

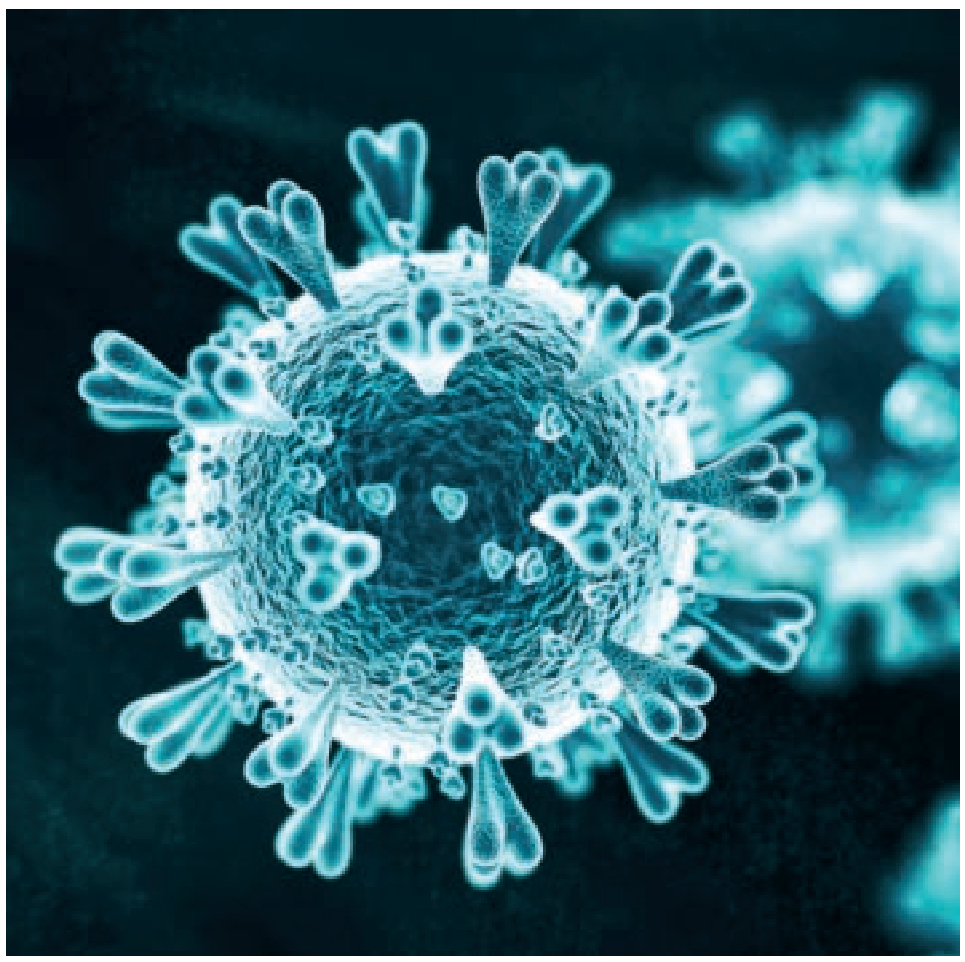
Insight raises $9.5bn for eleventh tech fund

Global software investor Insight Partners has raised $9.5bn for the final-close of its eleventh fund. The new vehicle, Insight Partners XI, is one of the largest global funds focused on investing in scaleup software companies. Commitments to the new fund came from Insight's existing, as well as new, investors.

"First and foremost, we want to acknowledge the current climate and the hardships being felt across the globe,"Jeff Horing, Insight Partners' founder and managing director said. "Fund XI gives us continued flexibility to provide the combination of capital and operating support that suits the different needs of every software company in a dynamic world."

The fund is expected to invest between $10m and $350m of equity in businesses that have advanced from the startup phase and are positioned for rapid growth.

Covid-19's impact on the emerging tech sector



Stalled revenues, tightening of funding, lower valuations and slower deal flow, associated with a weakened economy all leave emerging tech companies particularly vulnerable.

Earlier this month PitchBook published: The Ripple Effects of Covid-19 on Emerging Technologies. The report identifies how emerging technology, and the different sectors within it, are being impacted by the Covid-19 pandemic. When it comes to emerging tech sectors more specifically, health tech, food tech, IOT and mobility tech will be most significantly impacted by the pandemic. Overall, investors are more likely to favour emerging tech companies that offer longer term SaaS contracts and easy remote onboarding.

Retail transaction based businesses are likely to have a more difficult time finding investors, given the pullback of consumers and the nature of the pandemic keeping people home.

PitchBook notes that there has been a surge in demand for mental wellness applications. As pandemic anxieties worsen, mental health startups have experienced increased demand. The crisis has driven longer-term interest among corporate clients to make mental health products available to employees.

Increased demand for at-home fitness applications and devices will increase as gyms around the country close, individuals are forced to transition to at-home workout and fitness devices and applications are gaining traction.

Though the pandemic will end, PitchBook expects Covid-19 to have major implications on healthcare technology, suggesting it will spur adoption and innovation of robotics and remote patient monitoring devices. Meanwhile, the pandemic is a catalyst for delivery services. Widespread government-mandated restaurant closures and consumer quarantining is driving unprecedented demand for grocery and food delivery services.

In the long term, companies are expected to increase investments in technologies that expand supply chain visibility, the ability of management teams to track the journey of parts, components and products from manufacturing to delivery.

HUMATICA CORNER

Covid-19 – Is your portfolio ready for the long haul?

With Covid-19 wreaking havoc across the developed world, the level of uncertainty for investors and business leaders is unprecedented. The key question is how long will the epidemic last?

Unlike past crises, this one was triggered in the real economy. Demand and supply are spiralling down as a result of social distancing and stay-at-home orders. This has triggered a collapse in incomes with furloughed workers and supply shortages. Governments have generally responded well, with immediate monetary easing and fiscal stimulus to bolster demand and incomes.

However, we are at the peak of a long debt cycle, with historically low interest rates and high public, corporate and household debt. In the US, total debt amounts to $55Tr or 257% of GDP. Debt levels are on track to hit +300% of GDP - a level that could trigger a deflationary depression. And, the risk goes up the longer it takes to "flatten the curve".

So, portfolio managers and CEO's are facing a dilemma: how to maintain specialist competencies and resources needed to bounce-back when the virus is brought under control, versus cutting costs and laying off employees to protect short-term profits?

Thankfully, fiscal stimulus in most European countries eases this choice for the moment by linking it to job preservation. Germany's "Kurzarbeit" and the UK's recently enacted Job Retention Scheme subsidise labour cost as long as the employment relationship is maintained. Furloughed personnel are still technically employed by the company. These approaches enable efficient re-activation of businesses once the markets recover. But what if things take longer, the debt burden grows, and systemic risks appear in the financial markets? Clearly, in the face of this uncertainty, options have high value. That is, portfolio companies should have multiple scenario plans worked out ahead of time on how to rightsize their operations back to the bare minimum. With memories of the GFC and the tech collapse long faded, there is often reluctance to work through the organisational implications of a sustained 30-50% drop in sales, but nevertheless, this is the starting point. Option value is also preserved by acting quickly. That is, bold decision-making and collective agility to implement tough reductions at pace, are rewarded with more financial runway.

As the fall-out from Covid-19 threatens to sink entire portfolio vintages, PE sponsors and CEO's need to walk a tightrope between preserving organisational capabilities in order to resume growth in the likely case of a rebound in 2H 2020, while at the same time preparing to survive a protracted recession or even depression if things go wrong.