Impacts of COVID on VC Investment and the B2B Technology Markets

OCTOBER 2020
AGENDA

1. Pre-COVID B2B Markets
2. COVID As An Market Adoption Accelerator
3. VC Investment Shifts During COVID
4. Sneak Preview of MBA Survey Results
Illuminate Focus and Team

HISTORY OF FINDING AND SCALING COMPANIES WITH A COMBINED TOTAL OF 5 IPOS AND 15 M&A EXITS

- 100% focused on B2B/ENTERPRISE SOFTWARE
- Invested at SEED STAGE across 30 companies
- TRUSTED ADVISORS 18 board roles, 1st call from CEOs
- PLATFORM 45 world-class B2B execs and >70 MBA intern graduates as SCOUTS and additional resources to our portfolio
- Advocates for DIVERSITY in entrepreneurship with 70% diverse/40% female founders
- THOUGHT LEADERSHIP surveys, white papers and B2B pieces with 100s of media citations

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Illuminate’s Companies Become Market Leaders

2 IPO, 7 M&A EXITS AND >$4B IN FINANCING COMMITMENTS FOLLOWED ILLUMINATE’S $40M

**Xactly** becomes San Jose’s 2nd IPO this year

SoftBank’s $2 Billion Investment Values South Korea’s **Coupang** at $9 Billion

**Twin Sister Duo** at Vancouver’s **Allocadia** Raises $7 M from Altos, Inovia, Illuminate

New Relic Acquires Cloud Infrastructure Monitoring Service **Opsmatic**

**Contentstack** raises $31.5M Series A round for its headless CMS platform led by Insight Partners

**Vista** to buy **Xactly** for about $564 mln

**BrightEdge** Raises $42.8M For Content Marketing & SEO

PROJECTED MARKET GROWTH NEXT 5 YEARS

SaaS Applications with Big Data

- $131B
- 3.5x
- $37B

Enterprise AI

- $90B
- 18x
- $5B

Industrial Internet of Things

- $250B
- 3.5x
- $72B

Enterprise Mobility

- $320B
- 2x
- $160B

Cloud & IT Infrastructure

- $30B
- 2.2x
- $65B

Enterprise Blockchain

- $20B
- 8x
- $2.5B

Cyber Security

- $287B
- 2.6x
- $110B

Marketing 2.0

- $7.6B
- 3x
- $2.5B
And then this happened...

Who led the digital transformation of your company?

A) CEO
B) CTO
C) COVID-19
We Seek To Invest at the Intersection of Multiple Trends

PROVIDING TAILWINDS TO ACCELERATE GROWTH

COVID Shifts  Rising Trends  Market Business Tech

B2B Software Market

Most Accelerating Segments
Some Very Rapid Shifts Within Enterprises due to COVID

Some changes were nearly immediate – others will display over time – and some may be short-lived.

<table>
<thead>
<tr>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Centralized offices</td>
<td>• Remote first for white collar workers</td>
</tr>
<tr>
<td>• Classroom training</td>
<td>• Online training</td>
</tr>
<tr>
<td>• Asynchronous communication</td>
<td>• Synchronous, collaborative communication</td>
</tr>
<tr>
<td>• Professional coders</td>
<td>• Low code/no code</td>
</tr>
<tr>
<td>• Separate parallel channels</td>
<td>• Omni-channel experiences</td>
</tr>
<tr>
<td>• AI “experiments”</td>
<td>• Hyper-automation/RPA with instant ROI</td>
</tr>
<tr>
<td>• Physical IT infrastructure</td>
<td>• Cloud-based IT infrastructure</td>
</tr>
</tbody>
</table>
Every Category of IT Spend Forecast to Decline in 2020

**BUT SOFTWARE SPEND IMPACTED LESS THAN MOST – AND SOME SUB-SEGMENTS ACCELERATING**

Worldwide IT Spending Forecast (Millions of U.S. Dollars)

<table>
<thead>
<tr>
<th>IT Spend Sector</th>
<th>2019 Spending</th>
<th>2019 Growth (%)</th>
<th>2020 Spending</th>
<th>2020 Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Center Systems</td>
<td>$210,053</td>
<td>0.6</td>
<td>$188,365</td>
<td>-10.3</td>
</tr>
<tr>
<td>Enterprise Software</td>
<td>$476,687</td>
<td>11.7</td>
<td>$449,506</td>
<td>-5.7</td>
</tr>
<tr>
<td>Devices</td>
<td>$711,525</td>
<td>-0.3</td>
<td>$596,914</td>
<td>-16.1</td>
</tr>
<tr>
<td>IT Services</td>
<td>$1,040,263</td>
<td>4.8</td>
<td>$969,438</td>
<td>-6.8</td>
</tr>
<tr>
<td>Communications Services</td>
<td>$1,372,236</td>
<td>-0.6</td>
<td>$1,326,492</td>
<td>-3.3</td>
</tr>
</tbody>
</table>

Source: Gartner Market Data Handbook, 7-2020
IT Investment Impact Varies Significantly by Industry

AND UNCERTAINTY REMAINS FOR SOME VERTICALS IN THE LONGER TERM

<table>
<thead>
<tr>
<th>Industry</th>
<th>Short-Term Impact on Tech. Investment</th>
<th>Long-Term Impact on Tech. Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and Securities</td>
<td>Negative 🔻</td>
<td>Uncertain 🔻</td>
</tr>
<tr>
<td>Communications</td>
<td>Positive 🔺</td>
<td>Positive 🔺</td>
</tr>
<tr>
<td>Education</td>
<td>Positive 🔺</td>
<td>Positive 🔺</td>
</tr>
<tr>
<td>Public Sector</td>
<td>Positive 🔺</td>
<td>Positive 🔺</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Positive 🔺</td>
<td>Positive 🔺</td>
</tr>
<tr>
<td>Insurance</td>
<td>Negative 🔻</td>
<td>Uncertain 🔻</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Negative 🔻</td>
<td>Uncertain 🔻</td>
</tr>
<tr>
<td>Retail</td>
<td>Negative 🔻</td>
<td>Uncertain 🔻</td>
</tr>
<tr>
<td>Transportation</td>
<td>Negative 🔻</td>
<td>Negative 🔻</td>
</tr>
</tbody>
</table>

Source: Gartner, 2020
IT Spending Rebound is Expected Relatively Quickly

WITH SOFTWARE INVESTMENT SEEING CONTINUED GROWTH OVER TIME

WW IT Spend 2019-2024

Source: IDC, 2020
Tech Infrastructure Viewed as Critical Weakness

WHILE MANY OF THE MORE ‘HUMAN’ FACTORS PERCEIVED AS A STRENGTH OF THE BUSINESS

<table>
<thead>
<tr>
<th>Organizational Capability Assessment</th>
<th>Weakness</th>
<th>Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee resilience</td>
<td>4%</td>
<td>40%</td>
</tr>
<tr>
<td>Moving quickly</td>
<td>14%</td>
<td>32%</td>
</tr>
<tr>
<td>Collaboration</td>
<td>8%</td>
<td>30%</td>
</tr>
<tr>
<td>Business continuity planning</td>
<td>14%</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Technology infrastructure</strong></td>
<td>56%</td>
<td>20%</td>
</tr>
<tr>
<td>Meeting customer needs</td>
<td>6%</td>
<td>18%</td>
</tr>
<tr>
<td>Developing creative solutions</td>
<td>24%</td>
<td>12%</td>
</tr>
<tr>
<td>Decision-making</td>
<td>26%</td>
<td>6%</td>
</tr>
<tr>
<td>Financial resilience</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Gartner Survey of Financial Services Industry Execs, 2020
Cloud Software Far Outpaces Overall Software Growth

CIOS GRAVITATE TOWARD SPENDING ON SUBSCRIPTION AND CLOUD SERVICES TO LOWER UPFRONT COSTS

Source: Gartner, 2Q 2020

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Assessed COVID Shifts in 5 Areas Initially

Sought to identify key trends and where they intersected

- After recovery, greater Agility
- Covid-19 could cause permanent shift towards Work from home
- Security and Privacy concerns fuel raft of new regulations
- COVID-19 disruption removes decades of Supply Chain inertia
- 10 examples of B2B Customer Engagement transformation
Agility

DEMAND EXPLODES FOR EVOLVING BUSINESS MODELS AND PROCESSES FASTER

Rising Trends

Market
• Freelance/Crowd-economy use up
• Globalization – Geo diversity to survive local/single-source impacts

Business
• Borderless workforce – To avoid layoffs, ramp quickly, change location
• Decentralized decisions – Speed a must

Tech
• Cloud/SaaS - Everything goes online
• AI and Analytics - For transparency

Accelerating Segments
• Cloud/SaaS Apps
• DevOps
• Supply Chain
• Collaboration
• AI-assisted Humans / analytics / RPA and Hyper-automation
Work

SUDDEN SURGE IN REMOTE WORK CHANGES BEHAVIOR, STRESSES SYSTEMS AND PROCESSES

Rising Trends

Market

• Talent Shortages – Access to broader talent pools
• Lifelong Learning – Creating an adaptive, resilient workforce

Business

• Borderless Workforce
• Collaborative Engagement

Tech

• Cloud/SaaS – Anywhere access for distributed teams

Accelerating Segments

• Collaboration and Communication Tools
• Corporate eLearning
• Employee Performance Management
• Network Security
Work From Home Rates May Shift Somewhat Over Time

While there is a big leap in the % of time employees WFH today, it is expected to mitigate somewhat over time.

Another view suggests that nearly 20% will always WFH enough more part-time to have the total represent nearly half of all workers.
E-learning Platforms are Accelerating

THE FUNDAMENTS WERE ALREADY IN PLACE

But many new entrants are creating more immersive and engaging approaches.
Omni-channel & Experience Customer Engagement

Rising Trends

Market
• Informed On-demand, and
• Anywhere Access

Business
• eCommerce – Unprecedented uptake
• Omni-channel – One channel not enough

Tech
• AI/Analytics – Higher volumes of data
• Many new modalities, all integrated

Accelerating Segments
• Conversational AI
• Customer Analytics
• AR/VR
• Cloud Contact Centers
• Omni-experiences

CUSTOMER AND SELLING EXPERIENCES GO EVEN MORE VIRTUAL
Omni-Experience

AUGMENTED, MULTI-SENSORY INTERACTION WITH TECHNOLOGY EMBEDDED IN DEVICES AND PHYSICAL WORLD

By 2023...

65% Consumers will be using voice, images and AR for interacting with brands with their mobile device, extending physical and digital experiences

45% Enterprises will exploit Smart Personalization for context-based customer engagement, utilizing AI, Big data and conversational computing

Source: Gartner, July 2020
Security & Privacy

MORE PEOPLE ONLINE MORE OF THE TIME INCREASES RISK

Rising Trends

Market
• Anywhere Access – Shift to ecommerce
• Consumer Privacy - Regulation coupled with conf/video/surveillance way up

Business
• Customer Experience
• Ethics & Trust - Part of brand pushed by COVID communications

Tech
• AI/Analytics - More complex, higher volume of data

Accelerating Segments
• Data Privacy Management
• Integrated Risk Management
• Network Security
Supply Chain

Market
• Globalization, the world in pandemic
• Anywhere access, everyone remote

Business
• Agility, flexibility and visibility
• Borderless workforce, distributed teams

Tech
• IoT/Edge, process/manage the supply chain
• Robotics automate and augment for efficiency, safety, business continuity

JOLT TO SYSTEMS CREATES RUSH FOR IMMEDIATE VISIBILITY AND FLEXIBILITY

Rising Trends

Accelerating Segments
• Supply Chain Management
• IoT Software (Asset Management, Fleet Management)
• AI-assisted Humans / analytics / RPA
How COVID is Impacting Venture Capital Investing

CAPITAL INVESTED ON PACE WITH 2019, EVEN AS DEAL COUNT FALLS – BIO/PHARMA TAKING LARGER SHARE

US VC Deal Activity by Sector (SB)

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Source: NVCA and Pitchbook. *Through Q2, 2020

Software
Pharma & Biotech
HC Services & Systems
Other
HC Devices & Supplies
Media
Energy
Consumer Goods & Recreation
IT Hardware
Commercial Services
B2B Tech Deal Volume Down Slightly During Pandemic

BUT VALUATIONS HAVE INCREASED – POSSIBLE NEW PEAK IN 2020

US VC B2B Tech Deals by Year

- **Deal value ($B)**
- **Deal count**

B2B Technology companies are defined as companies offering technology-focused or technology-enabled solutions and whose customers are primarily other businesses.

Source: NVCA and Pitchbook. *Through Q2, 2020

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25
But Seed Valuations Declined for First Time in 10 Years

LATE STAGE FINANCINGS SEEING EXTRAORDINARY ONGOING LIFT

US VC Median Pre-Money Valuation ($M) by Stage

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Source: Pitchbook. *Through Q2, 2020
Illuminate’s Interns 2019-2020

Connor Cunningham Haas Berkeley
Georges Durot Kellogg
Tyler McClure Stanford Law
Daniel Khalessi Stanford Law
Louis Padnos Hobart Undergrad
Melissa Bizzari Tepper CMU
Austen Sybert Tepper CMU
Natalie Gerber Tepper CMU
Cara Giannandrea Tepper CMU
Sheila Bangalore Wharton SF
Daria Davydenko Wharton SF
Tulika Garg Wharton SF
Aaron Ishikawa Wharton SF
Sneak Preview: Survey & Whitepaper Update

FORTHCOMING FALL 2020: “TODAY’S MBA STUDENT IS TOMORROW’S ENTREPRENEUR”

Background
• 3rd in a series of collaborations with Tepper students
• Ongoing goal to understand entrepreneurial opportunity, with a gender lens
• Focus on MBA students – direct outreach to two dozen highly ranked programs in the US
• Assisted by Poets & Quants (> 2M month visitors reaching 85% of MBA population)
• Over 500 responses, 22 MBA programs, >65% diverse including >30% women
Top Motivations to Choose Entrepreneurship

CURRENT ENTREPRENEURS AND MBA STUDENTS HAVE SIMILAR REASONS TO BE FOUNDERS

Source: Illuminate Ventures Surveys 2018, 2019 and 2020
### Differing Views on Barriers to Entrepreneurship

**STUDENTS, ENTREPRENEURS AND VCS SEE THE BARRIERS AS HAVING VERY DIFFERENT LEVELS OF IMPACT**

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Female MBA</th>
<th>Male MBA</th>
<th>Female Founder</th>
<th>Male Founder</th>
<th>Female VC</th>
<th>Male VC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concerns re: financial security</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Access to startup capital</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Access to the right networks</td>
<td>3</td>
<td>3</td>
<td>7</td>
<td>13</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>Having a unique idea</td>
<td>low</td>
<td>low</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Acquiring Credibility/trust</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>10</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Illuminate Ventures Surveys 2018, 2019 and 2020
Thank you!

Cindy Padnos
www.illuminate.com
@IlluminateVC