FOCUS *on*

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Venture Capital – which opportunities?

“Venture Capital offers access to young, innovative companies at attractive valuation levels, allowing it to potentially capture a larger share of the value creation of these companies.”

For more than 50 years, Venture Capital has been one of the main players in financing innovation worldwide. The start-ups financed have contributed to a profound transformation of the economic landscape. As an example, 7 of the 10 largest companies in the S&P500 were financed through Venture Capital.

What is Venture Capital?

Venture Capital is the process of investing in young, innovative companies.

Many of today's technology companies in sectors such as autonomous vehicles, artificial intelligence, blockchain and new ways of working have been financed by this type of investment to support their development.

The increase in the size of the universe of unlisted companies and the valuations that we consider attractive in this sector seem, according to our analysis, to constitute a favorable environment for investing or strengthening long-term exposure to Venture Capital.

Why invest in Venture Capital?

Historically, when an innovative company needed to raise substantial amounts of money, it had to go public.

Over the last 20 years, private markets have developed very strongly and can now provide a solution to all the financing needs of companies. This means that companies can remain private for a longer period of time before going public.

Venture Capital offers access to young, innovative companies at attractive valuation levels, allowing it to potentially capture a larger share of the value creation of these companies.

This has allowed Venture Capital to outperform listed assets and even private equity, generating returns of 24% per year over the past ten years*.

Today, venture capital is a preferred asset class for institutional investors such as foundations, pension funds, insurers and high net worth individuals.

Should one invest now in Venture Capital?

After record years in 2020 and 2021, listed technology stocks have fallen sharply since late 2021. According to our analysis, this downturn could represent an opportunity for investors.

Indeed, we believe that one of the first potential consequences of this market downturn would be a slowdown in the amounts invested in innovative companies. This slowdown could lead to a significant dichotomy between innovative companies that succeed in raising funds and those that will have great difficulties. The well-funded leading companies could consolidate their market share by buying out their competitors and thus benefit from the more favorable competitive landscape. Subsequently, the revaluation of company prices could lead to investment opportunities in these same companies at particularly attractive valuations. This phenomenon, which has already been observed in the past, following the financial crisis for example, has enabled ODDO BHF to invest at very attractive valuations in major US technology companies and thus generate high returns. It should be noted that past performance is no guarantee of future performance and that venture capital investments carry a high level of risk.

The secondary market could become a growing source of alternative liquidity for companies and investors.

According to our analysis, prices in this market will be attractive, with discounts of up to 30-50%, and therefore represent a real opportunity for investors.

In conclusion:

As part of a wealth management and asset allocation approach, introducing a portion of Venture Capital investments can, according to our analysis, potentially allow one to seize significant return opportunities while offering the possibility to diversify one's commitments.

**Source : McKinsey Global Private Markets Review, 2022*

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