

Swiss Venture Capital Report

2020

Update

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Summary

Investment in Swiss start-ups proved to be resilient in the first half of the year. Overall, CHF 763 million flowed into companies in 105 financing rounds. When it came to the number of investments, the long-standing growth trend was continued. The capital invested was more than a third lower year-on-year due to the absence of financing rounds in the three-figure million range. By contrast, the median for all financing rounds in the first half of 2020, CHF 3.9 million, was 20% higher than in the previous year.

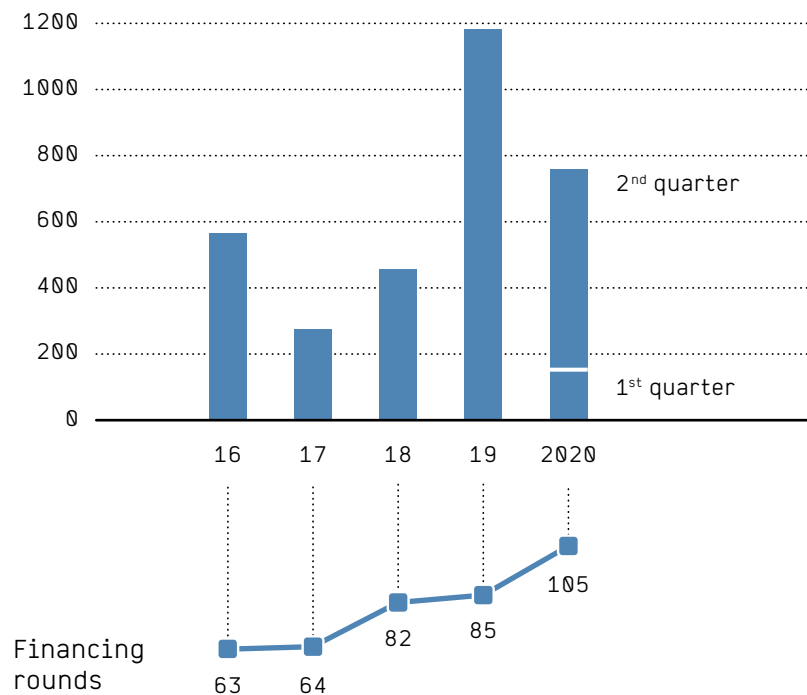
Nevertheless, the crisis has had an effect. The share that Swiss investors contributed rose from about a quarter in the long-standing average to about half. Investment by European investors in particular declined sharply. Moreover, the M&A market practically came to a standstill in February. A tentative recovery was evident only in June.

Additional important insights were provided by a survey of Swiss investors. Investors have maintained their investment activity almost unabated during the crisis. In addition, the answers give reason for optimism about the future. Admittedly, fund managers expect delays in fundraising, but assume that they will not have to lower their sights when it comes to their target fund figures.

Investments

Investments in Swiss start-ups in the first half of the year

Invested capital CHF m



Despite the coronavirus crisis, lockdown and travel restrictions, there was robust activity throughout the first half of 2020. The number of investments even continued the long-standing growth trend: in the first half of this year, 20% more venture capital investments were made.

The total amount invested decreased by more than a third compared with the first six months of 2019. However, this is due solely to the absence of financing rounds of more than CHF 100 million. The combined median value of all financing rounds in the first half of 2020 was CHF 3.9 million, almost 20% higher than last year.

A quarterly comparison shows that a very weak first quarter was followed by a strong second quarter, even though lockdowns and travel restrictions started appearing only in mid-March and in some cases lasted until the end of the second quarter. Investors and start-ups demonstrated very fast reaction times – both to the emerging risks and to the special challenges of life under lockdown.

The Top 10

The life sciences dominate the start-ups with the biggest investments. However, a firm that develops enterprise software is at the very top of the list.

77.7 CHF m

Scandit

The Zurich company turns smartphones into industrial-grade barcode scanners and simplifies checks by way of augmented reality functionalities.

LINK 

73

Climeworks

Climeworks' system removes CO2 from the atmosphere, which can then be deposited or further processed as climate-neutral fuel.

LINK 

62

Skycell

Biotech medicines are sensitive. Skycell ensures with its transport containers that patients receive their medicines in pristine condition.

LINK 

50

Spineart

The medtech company simplifies surgical operations with its products for vertebral column surgery.

LINK 

37.9

Polares Medical

The company is a spin-off of Symetis, a Swiss medtech company taken over by Boston Scientific for USD 435 million.

LINK 

The Top 10

33.9

VectivBio

The same management personalities that previously led Therachon to success are in charge of this biotech company focused on rare diseases.

[LINK](#) 

31.5

Monte Rosa Therapeutics

The company, which produces cancer medication, is a product of the Versant Ventures incubator in Basel.

[LINK](#) 

23

Lunaphore

Cancer can be detected much faster with Lunaphore's devices. Following the launch of its products, expansion is now on the agenda.

[LINK](#) 

22

Numab

Thanks to its platform for development of antibody medicines, Numab succeeded in recruiting well-known pharmaceutical companies as partners and has now also attracted investors.

[LINK](#) 

21.4

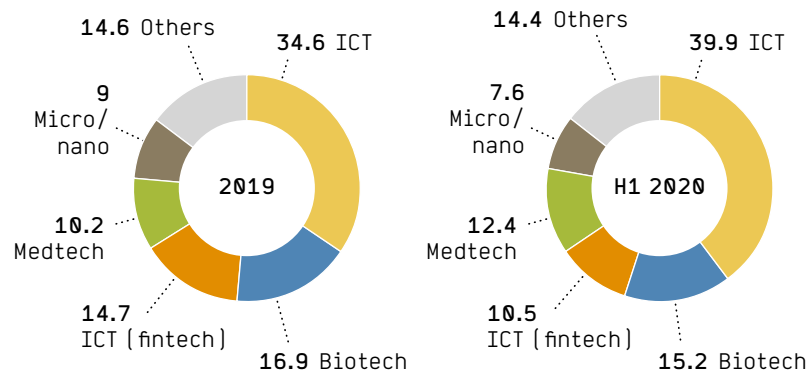
NBE Therapeutics

The company will use the funds from the financing round to launch clinical tests of its lead molecule against cancer.

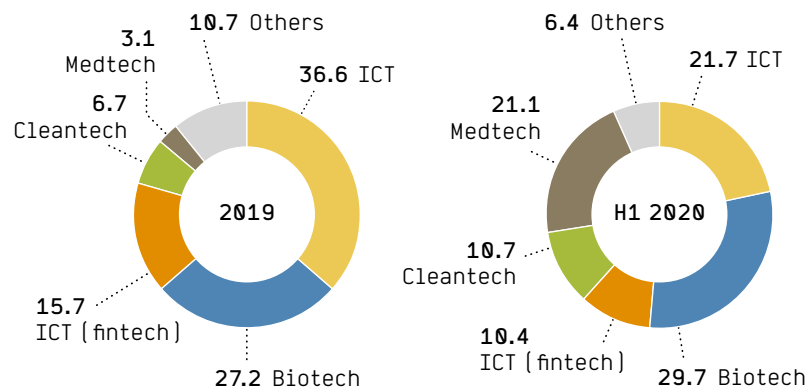
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Sectors

Share of financing rounds by sector in %



Share of invested capital by sector in %



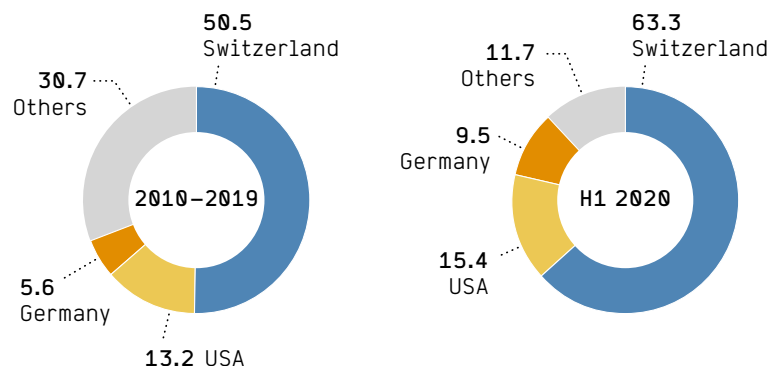
The distribution of financing rounds according to sectors has proven surprisingly stable. The interests of the individual industries were practically the same in the first half of 2020 as they were in 2019. Although there was indeed an increase in ICT financing rounds, there was also a concurrent decrease in fintech rounds. Other areas showed similar slight shifts.

In terms of invested capital, however, the ICT sector, including fintech, has seen a significant decrease due to the lack of mega financing rounds of CHF 100 million or more. The median for ICT financing rounds in the first half of 2020 was CHF 3.4 million – clearly higher than the median of CHF 1.7 million in the first half of 2019.

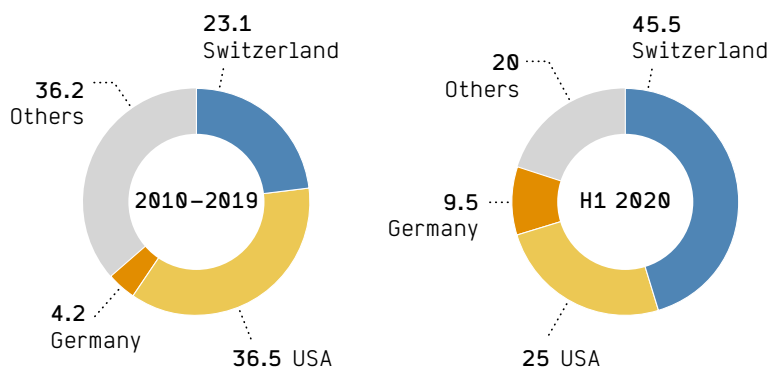
There has also been a strong increase in the medtech sector. This sector saw four financing rounds of more than CHF 20 million in the first half of 2020 alone (Cutiss, Lunaphore, Polares Medical and Spineart). The amount invested in the cleantech sector has also shown positive development. As in 2019, a cleantech company successfully closed a very large financing round in 2020 as well, with Climeworks receiving CHF 73 million.

Investors from abroad

Share of number of investments
by country of investor in %



Share of invested amount
by country of investor in %



Source: Crunchbase / University of Lausanne / Startupticker.ch

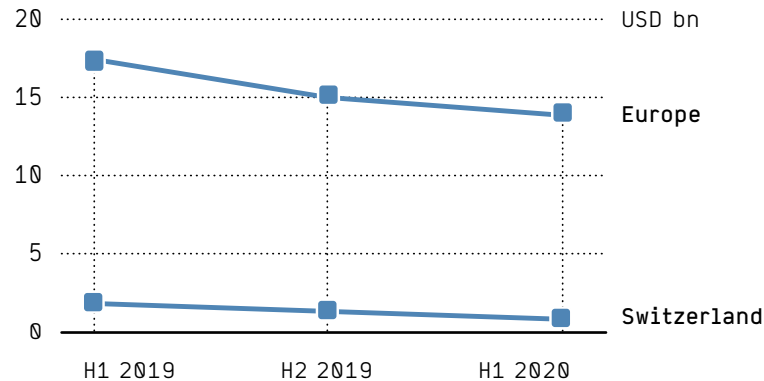
Traditionally, Swiss start-ups raise a large proportion of their funds abroad. A new study at the University of Lausanne, based on adjusted Crunchbase data, concluded that between 2010 and 2019 just under a quarter of the money invested in Swiss start-ups came from outside Switzerland. The most important country of origin was the US, with a share of more than a third of the invested capital. The ratio was more balanced in terms of the number of financing rounds. Here, domestic VCs were responsible for almost half the rounds.

The origin of the funds changed markedly during the crisis with the importance of Swiss investors increasing hugely. According to our analysis, the share of money from Switzerland almost doubled. At the same time, there was a clear decline in the inflows from the US and Germany. Hardly any money came from the UK and France in the first half of the year, two otherwise important countries of origin in Switzerland. The restraint of foreign investors might be one reason for the absence of financing rounds of more than CHF 100 million.

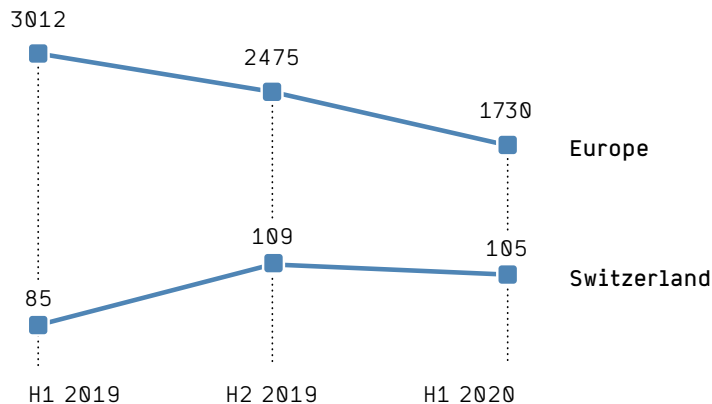
In contrast, financing rounds became more focused, with the Swiss share increasing, along with that of the US and Germany. On the other hand, the share of those countries where investors participated only when there was a suitable opportunity plunged.

European comparison

Invested capital in start-ups



Number of financing rounds



Source: Pitchbook / Startupticker.ch

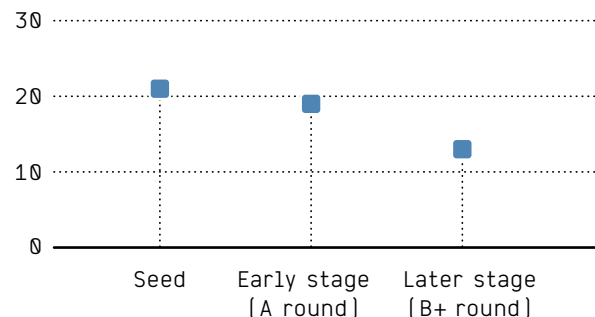
In order to better understand and contextualise the developments, the Swiss figures were compared with data from European countries. The comparison group comprises western Europe and Scandinavia, excluding the UK. The picture that emerges in the aggregated European figures from market research company Pitchbook is also reflected in most individual countries. There has been a downward trend over the last three half-year periods. This trend is very clearly reflected in the number of financing rounds. The number in the first half of 2020 was a good 40% lower than in the first half of 2019. At 18%, the decrease in invested capital was much smaller.

In Switzerland, there was a larger decrease in invested capital of 30% – here again, the absence of mega financing rounds was a significant factor. However, the development in the number of financing rounds runs counter to the international trend.

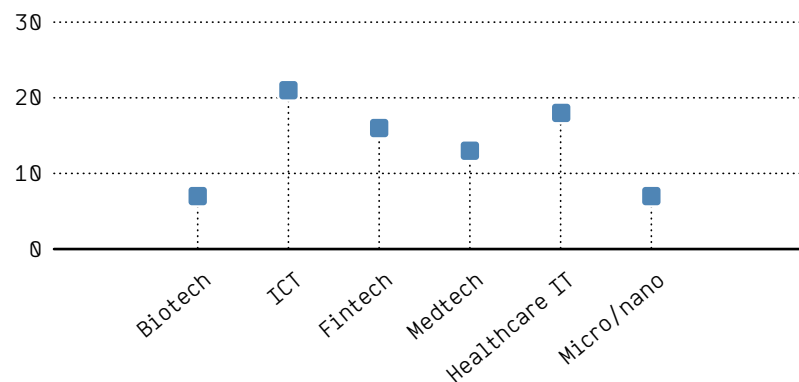
The reasons behind this development in the number of financing rounds in Switzerland may include the numerous new funds and increased activity on the part of business angel clubs. Another probable reason is that Swiss start-ups often operate in highly profitable niche markets that involve little market risk, require less investment in marketing and are generally less dependent on economic cycles.

Survey introduction

Investors: preferred investment stages



Investors: preferred industry



The crisis triggered by the coronavirus is not over yet. In order to provide a data-based outlook on future developments in the Swiss venture capital market, we conducted a survey of venture capital investors (VCs) at the end of June in collaboration with the Institute for Financial Services Zug (IFZ) at Lucerne University of Applied Sciences and Arts, which supported us in the design, implementation and analysis of the survey.

A total of more than 40 Swiss venture capital investors were contacted, of which 29 completed the questionnaire. The surveyed investors represent all investment phases and sectors. The majority invest both in a range of phases and a range of sectors. A certain focus can be seen in the ICT sector, including fintech and healthcare IT. Investment in biotech, microtech and medtech, on the other hand, is more for specialists.

VCs have not stopped working, despite the crisis. About 50% of these companies were fundraising at the time of the survey.

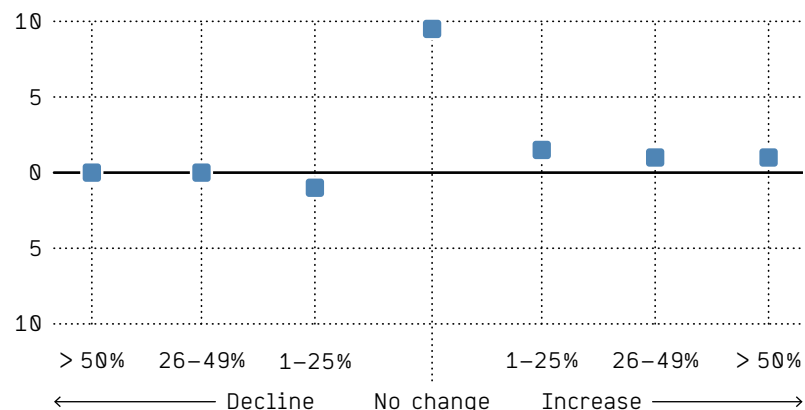
Survey partner

Lucerne University of
Applied Sciences and Arts

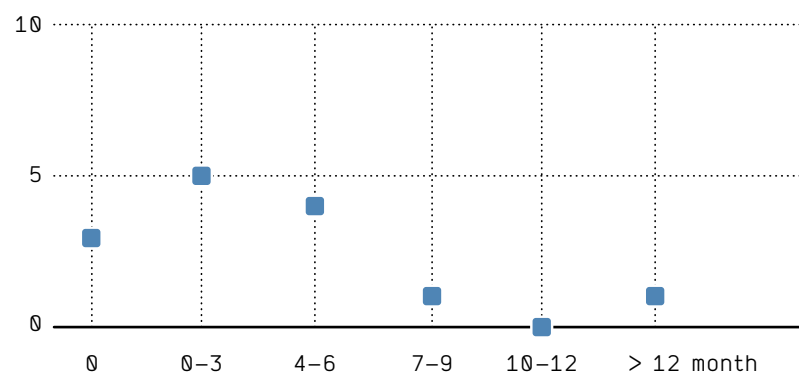
**HOCHSCHULE
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Fundraising survey

Impact of Covid-19 on size of fund



Delay in closure of fund



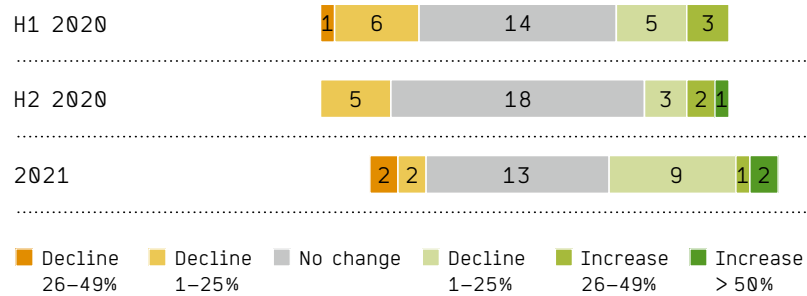
Swiss VC funds experienced a boom in 2018 and 2019. Established companies were able to significantly expand their assets and management. During this period, many newcomers also entered the venture capital market, leading to intensive fundraising activities. *Swiss Venture Capital Report 2020* listed more than 20 fund managers that were looking for investors at the beginning of the year. Any decrease in such activity would lead to a lack of venture capital for Swiss start-ups by next year at the latest. For this reason, trends in fundraising activities serve as a good advance indicator of the development of VC investment.

The surveyed fund managers express a surprising optimism, in particular in terms of the target size of the funds. Only one expects to be able to raise less capital than planned. The majority expect to achieve the originally planned amount. Almost one third of managers surveyed even expect to exceed their pre-coronavirus targets.

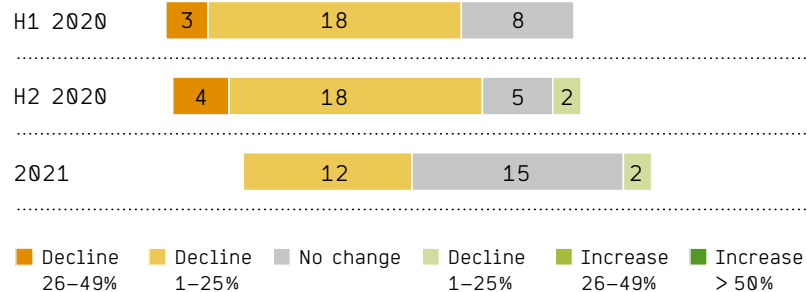
However, the crisis is causing a delay in fundraising. Two thirds of managers expect delays of between one and six months in closure of their funds.

Investment survey

Number of term sheets signed and expected to sign compared with 2019



Expected development of valuations

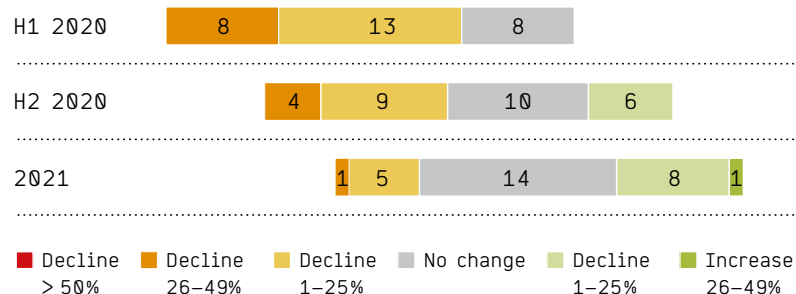


The lockdown paralysed several sectors of the Swiss economy, but the venture capital market was definitely not one of them. Investors signed almost as many term sheets in the first half of 2020 as they did in 2019. The answers to this survey question represented a near-normal distribution. The crisis apparently had no impact at all on the number of completed financing rounds. In general, fund managers are planning the same level of investment activity in 2020 as in 2019, with a slight upward trend in 2021.

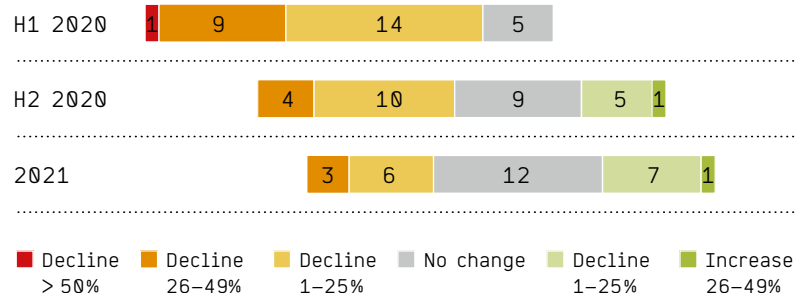
Although the number of signed term sheets remains stable, there are changes in the content of the contracts. Three-quarters of the surveyed managers stated that the valuations of start-ups had fallen in the first half of 2020, although it was a comparatively moderate decline. This is also true for the second half of the year when three quarters of fund managers expect lower valuations compared with pre-pandemic levels. More than half of managers expect a return to pre-Covid valuations in 2021. Before the crisis, some observers were of the opinion that the start-up market was already in another bubble resembling 2000/2001. The sober and restrained reaction of investors to the crisis clearly does not support this assumption.

Market survey

Expected level of investment in Swiss start-ups compared with 2019



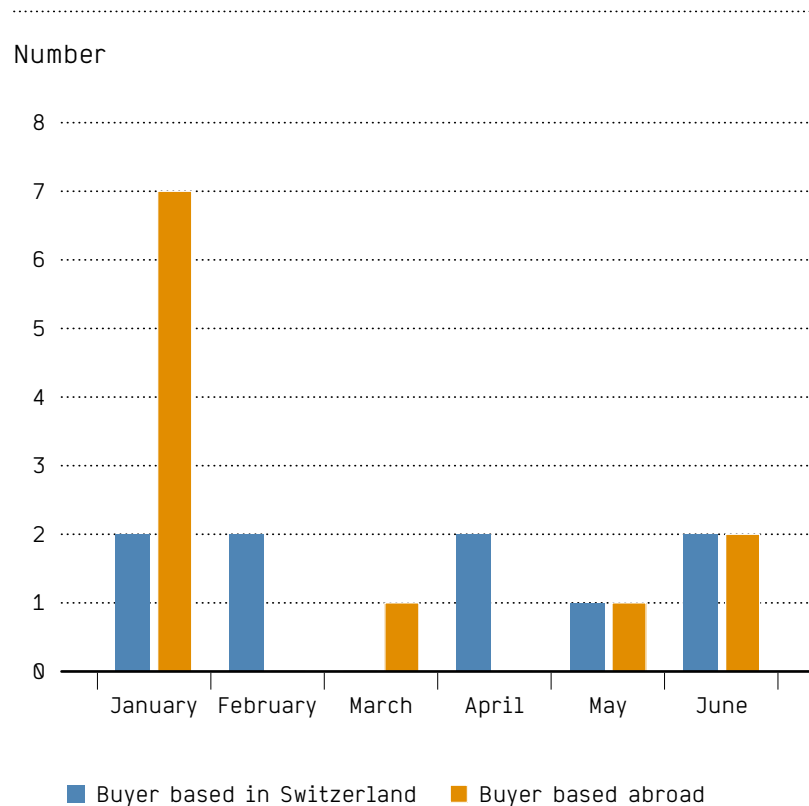
Expected level of funds raised by Swiss VCs



More than half of VCs expect that the total amount invested in Swiss start-ups this year will be lower than in 2019. That year set a new record of CHF 2.3 billion – about CHF 1 billion higher than in 2018. The lower amount at a similar level of financing rounds can be explained by lower valuations, the lack of mega financing rounds of CHF 100 million or more, and reluctance on the part of foreign VCs. For 2021, three quarters of respondents expect a similarly high or even higher level of investment in Swiss start-ups as in 2019.

In their answers about the volume invested by limited partners (eg, family offices, wealth managers, high net worth individuals, pension funds), fund managers are more pessimistic than they are about their own prospects of raising capital. They expect that the general trends will be more negative than those of their own funds.

Exits



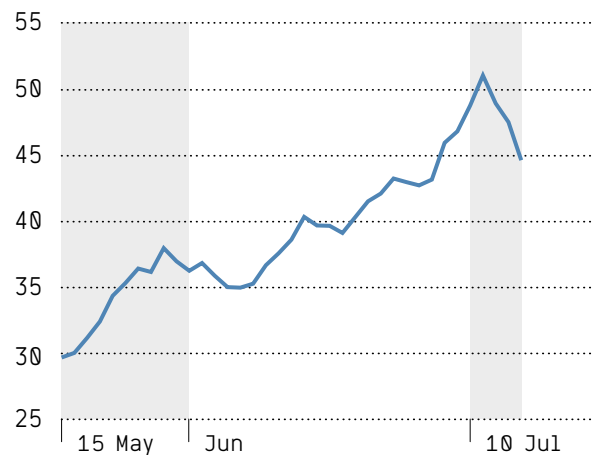
Between 2015 and 2019, Swiss start-ups were able to realise between 30 and 50 exits annually. The level in the first half of 2020 was about the same as in previous years with 21 exits. Twenty start-ups were taken over by other companies, with ADC Therapeutics' IPO in addition. The diagram shows that lockdown and travel restrictions had a severe effect on the number of acquisitions. About half of all exits were disclosed in January; after this, the numbers collapsed. Traces of a recovery emerged only in June.

Both domestic and cross-border M&A activity collapsed due to the crisis. However, the effects on international business activity were far clearer. Only one exit with a foreign buyer was disclosed between February and May. This resulted in an unusual proportion of buyers of Swiss start-ups for the half year as a whole. In 2019, two thirds of them came from abroad, but this dropped by about half in the first half of 2020.

IPO

ADC Therapeutics

First trading day: 15 May 2020



ADC Therapeutics, based in Epalinges near Lausanne, focuses on the development of antibody drug conjugates – antibodies attached to biologically active drugs by chemical linkers – for the treatment of both solid and hematological cancers. The company postponed its IPO plans in 2019, when it targeted a valuation of about USD 1.6 billion and a USD 200 million equity increase, due to adverse market conditions.

ADC launched a second attempt during the COVID-19 crisis and went public on the Nasdaq on 15 May. The IPO was a huge success, with the company raising USD 267 million and the valuation jumping to more than USD 3 billion.

Biotech has been one of the best performing sub-sectors on the stock market since the beginning of the year. The pandemic has thrown a spotlight on biotech companies, as the industry has played a critical role in managing COVID-19. As a result, biotech IPOs in the US are booming and this boom has spread to the entire sector, including companies that focus on cancer therapies, such as ADC.

ADC is another example of a Swiss company that decided to go public, following Crispr Therapeutics and AC Immune. The US market is by far the largest biotech market in the world, with probably the most advanced investors.

Methodology

The analysis takes into account only Swiss start-ups – that is, those companies that have their legal headquarters in this country. In addition, a senior person with decision-making authority, such as a C-level manager or a board member, must be based in Switzerland. Exceptions may be made if the decision makers are not active in the country of the legal headquarters outside Switzerland, but instead the top managers and board members are based in Switzerland.

The report focuses exclusively on venture capital investments of at least CHF 100,000. Pre-seed equity deals with accelerator programmes are excluded. Buy-out financing and private equity investment in established companies are also excluded; this applies even if the established company is growing strongly.

For the comparisons between the first half-year 2020 and other half years, we took into account only those financing rounds announced by the start-up in the respective time period.

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