Finding attractive opportunities in the US Private Markets

KEVIN MOSS
Liberty Street Advisors

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Markets in the US were very volatile last year - what opportunities and challenges does that create for you?

It was very challenging year last year. There was a decrease in valuation for sure. There's always this concept that private markets lag public markets, and I thought we definitely saw that catch up last year. The primary markets where companies were raising capital was not shut down, but certainly much less active than the previous years. And so most of the opportunity came in the secondary market with deeply dislocated pricing in very good companies that had great balance sheets. However, they became dislocated based on the general market and the valuation catch up and so we've tried to take advantage of that in the secondary market.

One of the biggest challenges was raising capital last year. However, being able to deploy capital in a market like this is very opportunistic. If you look back in the history of time, some of the best times to actually deploy capital are periods of volatility and uncertainty. So some of the best vintages you'll see are periods like that. And I think if we look back in two to three years from today, you'll find that this period of time was exactly the same.

What looks attractive in 2023?

I think you're still seeing some volatility in the market. You're still seeing deeply dislocated pricing. The exit environment is still shut. Companies are not raising priced rounds necessarily because no company really wants to do down rounds, but then instead they're doing alternative methods of raising capital like convertible notes or extensions to round. Those are some really interesting opportunities. And the secondary market continues to be a good place for us to deploy capital. The valuations continue to come off. Secondary transactions, again, deeply dislocated pricing, those are all very opportunistic as well. The alternative fundraising, as well as the secondary transactions are very opportunistic right now. And they can continue to be there for quite some time, we think.

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For example, for the past few years there is a handful of very attractive companies that were very sought after companies trading out valuations that frankly we couldn't get our arms around. A lot of people, investors, were trying to get into these companies, the valuations were elevated. Those companies have come down in valuation now. They've also have laid off some people, for the right reasons. And let me give you an example of that. As an employee leaves a company, they typically have options which they have to exercise within 90 days. The valuations of these companies have come down, and these individuals have a low stock price, they then have to exercise their options at a much lower price, and we're there to take advantage of that. This is basically something that's done all the time, except in a much more elevated environment it's more difficult to get access to these companies. But right now there's a lot of supply versus demand.

What are the sectors that look interesting?

We cover 19 different sectors in our fund, all of which are innovative, disruptive type companies, disruption by technology. Take for example, FinTech or financial technology, there's a lot of companies that were very attractive to us, however, were trading evaluations that we thought were a little elevated over the last couple years, and now they've come back down to a level that are compelling for us. And we're seeing secondary transactions in these different FinTech companies, some of which, if I was able to call them out you would know of them, they're very popular companies, but they're trading at valuations that are much more attractive and we're trying to take advantage of those dislocated prices.

There's the private space economy. We're looking at education technology, food technology. We're looking at traditional enterprise software. But a lot of our deployed capital, again, we're industry agnostic, but a lot of our deployed capital is going into financial technology and the private space economy.

Can you explain your investment process and philosophy?

Our investment process, first of all, we're looking at late-stage venture backed private companies. We are not looking at traditional venture or what the general investing public might think of traditional venture where you're investing in early-stage technology and you haven't gotten beyond that early stage technology risk. It's a different risk return profile, and we leave that to the VC community. What we're looking at are companies that are beyond that early-stage technology risk, these are companies that are already 8 to 10 years old. They're growing 40 to 50% top line. They have 50 million plus in revenue, some hundreds of millions of dollars in revenue, and they've really bubbled to the top of the Valley.

These are companies with a total addressable market that is tangible, and they are somewhere between two to four years before some type of liquidity event, whether it be an M&A event or an IPO event. That's where we operate, in that area. And for us, we can get a lot of origination in those types of companies, from the companies themselves, through the VC community, through the banker community and the broker dealer community. And in many cases, sellers come to us given what we do directly as well. ■