

October 17th, 2023

Webinar Series

Macroeconomic Outlook

What lies ahead?

Hosted by

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Senior Managing Director



Adriaan Zur Muhlen
Managing Partner

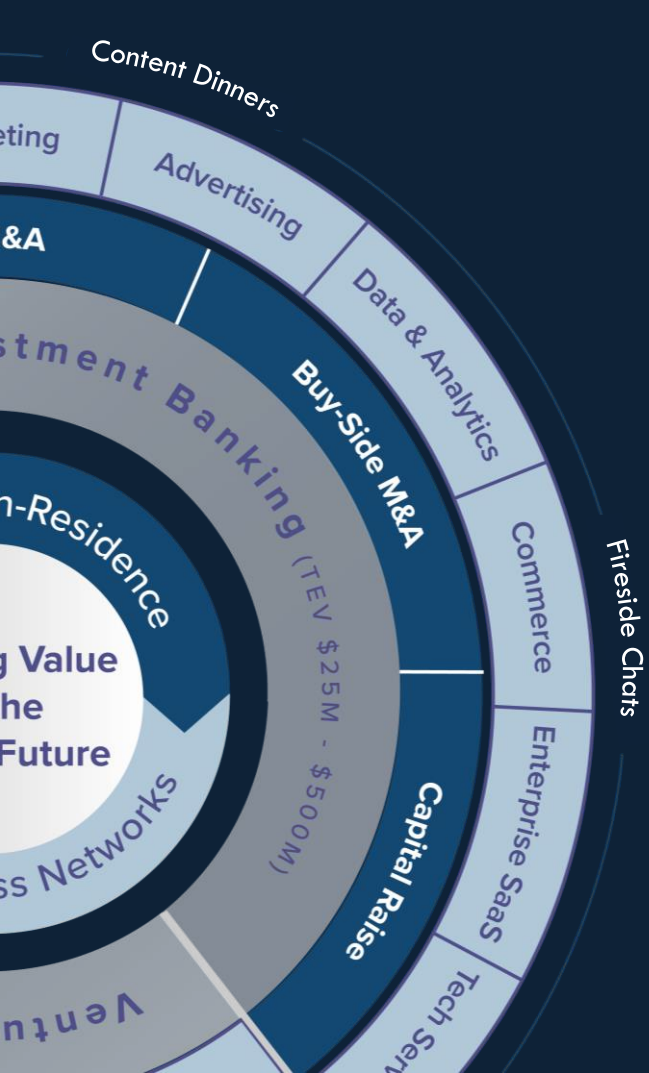


Brett Chatfield
Vice President



Relevant experience

Recently completed mandates



PRIMITIVE & eRetailing
E-commerce & fulfillment divisions

Have Been Merged to create

eRetailing, Inc.

A principal of the undersigned served as the exclusive financial advisor in the development of the company's strategic plan.

PROGRESS PARTNERS

thinktime

Has been Acquired by

storeforce
An [AKKE] company

A principal of the undersigned in development of the company's strategic plan, served as exclusive financial advisor

PROGRESS PARTNERS

CircleUp

Has been Acquired by

brightflow.ai

A principal of the undersigned in development of the company's strategic plan, served as exclusive financial advisor

PROGRESS PARTNERS

BOISE
PROFESSIONAL

Has Been Acquired By

TRANSOM
CAPITAL GROUP

Progress Partners served as the exclusive financial advisor in connection with the sale.

PROGRESS PARTNERS

ramp

Has been Acquired by

vbrick

A principal of the undersigned in development of the company's strategic plan, served as exclusive financial advisor

PROGRESS PARTNERS

Retargetly

Has been Acquired by

EPSILON
A PUBLICIS GROUPE Company

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PROGRESS PARTNERS

MEDIA Radar

Has secured strategic investment from

THOMPSON STREET
CAPITAL PARTNERS
ENDICOTT GROUP

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PROGRESS PARTNERS

wwc GLOBAL

Has been Acquired by

Command Holdings
A Pequot Company

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PROGRESS PARTNERS

gamut
SMART MEDIA FROM ECK
An [ARTELLO] company

Has been Acquired by

One Equity Partners

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PROGRESS PARTNERS

COXREPS
An ARTELLO company

Has been Acquired by

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BULLETIN

Has been Acquired by

EMERALD

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TCA

Has been Acquired by

OMG
OmnicomMediaGroup

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PROGRESS PARTNERS

Relevant experience

Progress Ventures is a sector-focused fund based on industry expertise investing in B2B advertising, marketing, and media technology companies, focused on four key areas of disruptive technology.

Investment Themes



Data Management



AI & Machine Learning



Media Automation



Measurement & Analytics

Current Portfolio – Fund 4

talkshoplive
Live Streaming & Home Shopping Shows Platform

TRACER
Data Intelligence Platform

tenovos
Cloud-Based Digital Asset Management

BLUTAG
Retail Voice Commerce

INSTREAMATIC
Voice-Enabled Audio Advertising

ID5
Universal ID for Digital Advertising

narrative
Data Streaming and Customization

Outside
Media and Consumer Tech

teikametrics
Marketplace Optimization

sovrn
Publisher Technology Platform

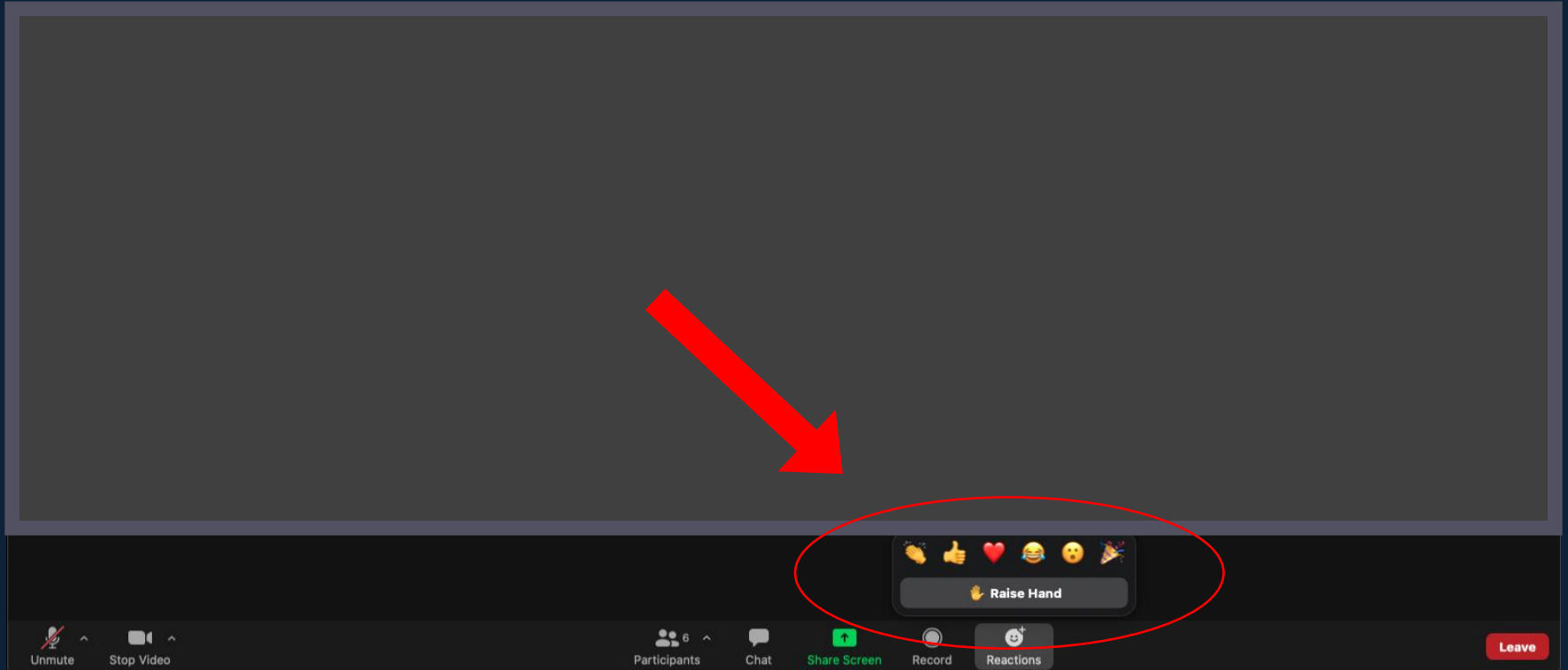
VERITONIC
Audio Measurement and Analytics

DISRUPTEL
Contextual Voice Interactions with Screens

Clinch
Creative Advertising Technology



Please Raise Your Hand!



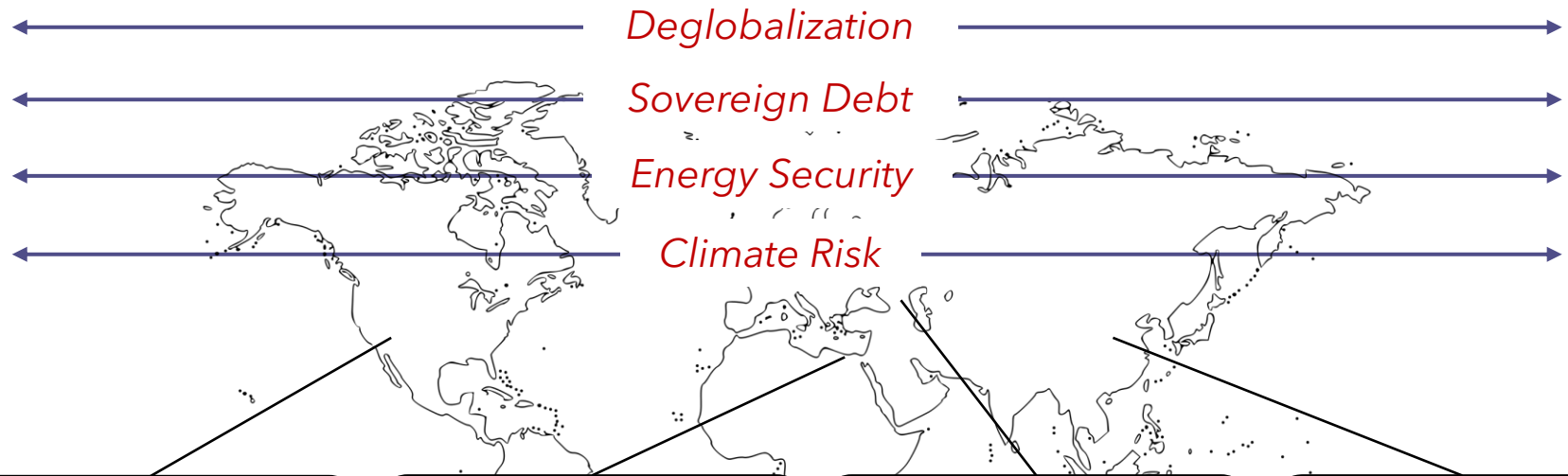


Macroeconomic Outlook

What lies ahead?

Growing Nationalism, Protectionism, and Populist Movements

Recent movements have created an environment of uncertainty and could potentially lead to deglobalization



- Political polarization and messy Washington
- Lack of fiscal discipline and growing debt and deficit



- Surprise attack in Israel
- Tensions across Middle East increasing with significant escalation risk



- Major war continues longer than expected with no end in sight
- Continued tensions between NATO and Russia



- Continued deterioration of US - China relations
- Territory disputes and increased military in South China Sea
- Deteriorating economic fundamentals

Macroeconomic Overview

The rate outlook and macroeconomic picture are becoming more clearly defined; increased US economic stability will allow for a more sustained recovery to take hold

Factors Driving the Macro Picture



Inflation - approaching 2% target; remaining elevated components volatile and lagging in nature



Labor - cooling; participation rate rising; declining openings alleviating wage pressures



Interest Rates - remain steadily high and are now well above CPI; new signals to keep high longer

Reopening of the Deal Market



Lending Activity - activity picking up; defaults and spreads remain low; growth in private credit



IPO Markets - beginning to reopen evidenced by recent tech; appetite among public investors



Deployment Pressure - dry powder remains high; long hold times; LPs seeking liquidity

Monitoring:



Consumer Resilience

Credit Card Debt, Consumption, Unemployment



Commercial Real Estate

Office Vacancies, Debt Holders



Sovereign Debt

Record Debt, High Interest Rates



Geopolitical Risks

Deglobalization, War, Trade Disputes

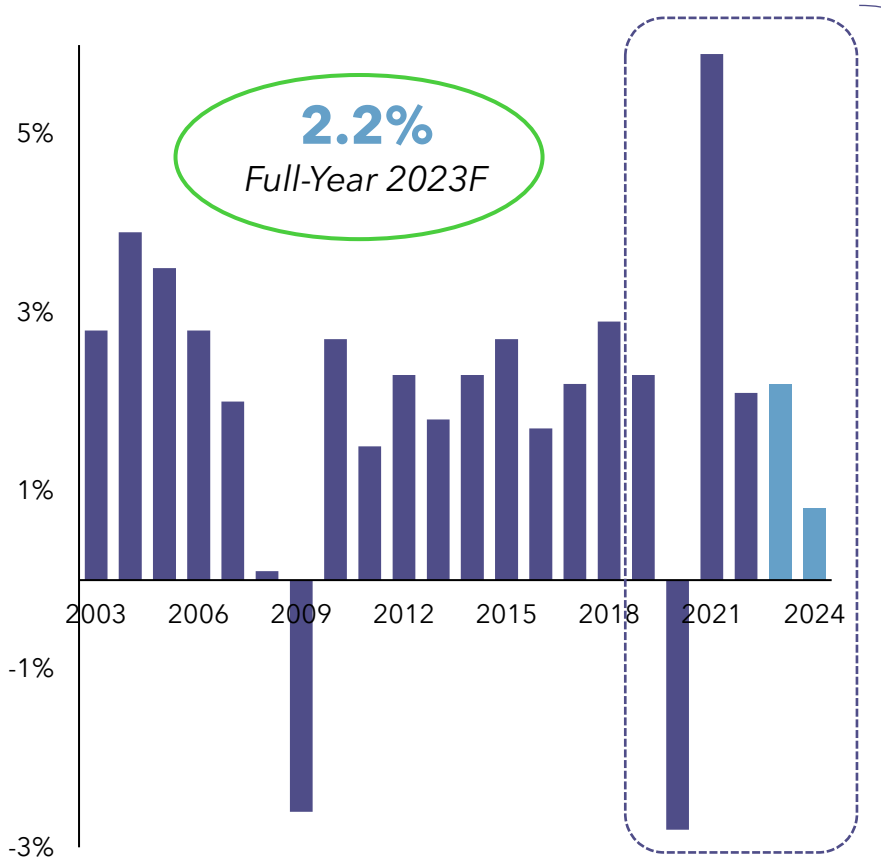


Macro Update

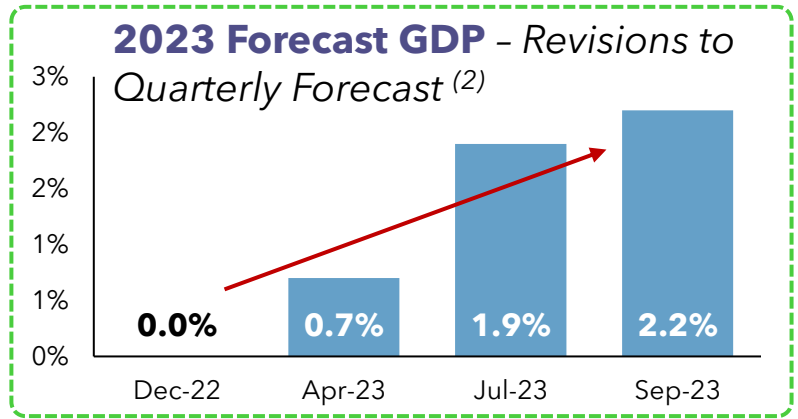
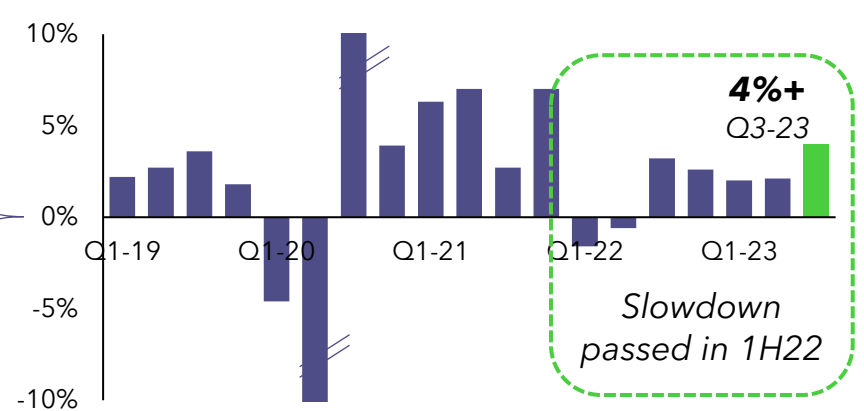
US GDP

GDP forecasts were consistently revised upwards and will finish healthy this year; earnings forecasts remain strong (as margin improvement outpaces revenue growth)

GDP - US Real GDP Growth YoY ^(1,2)



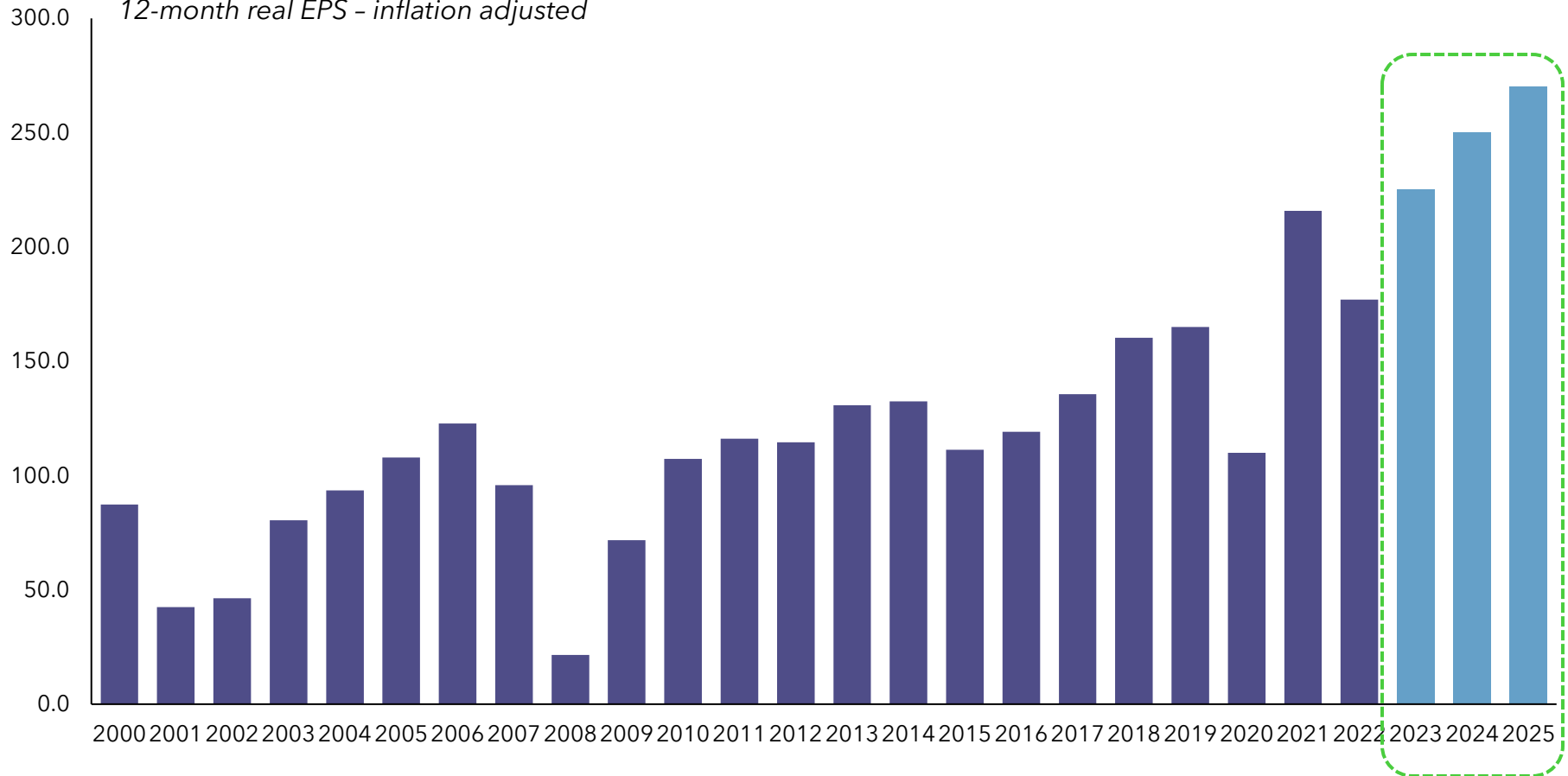
GDP - US Real GDP Growth QoQ ⁽¹⁾



Earnings

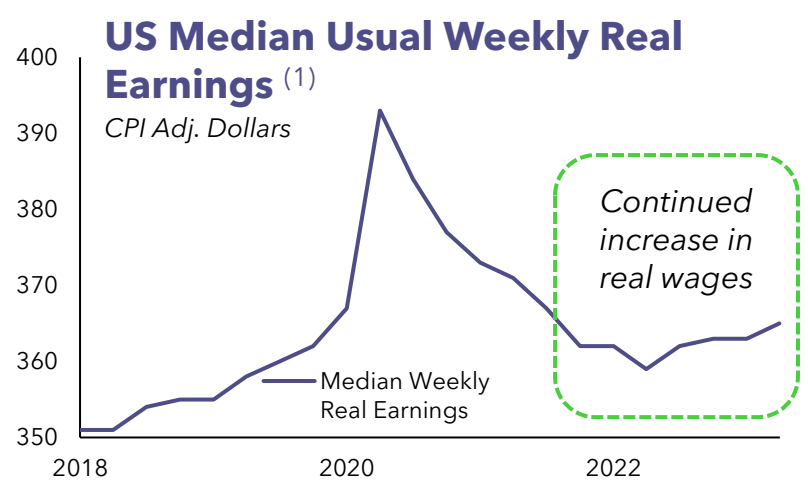
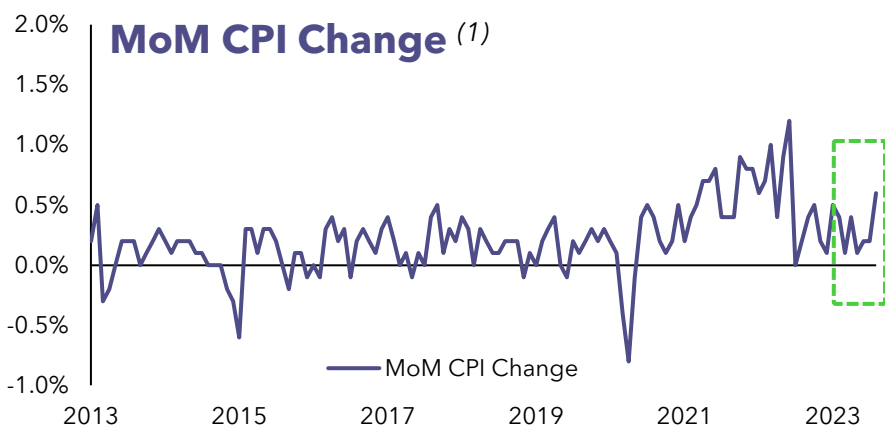
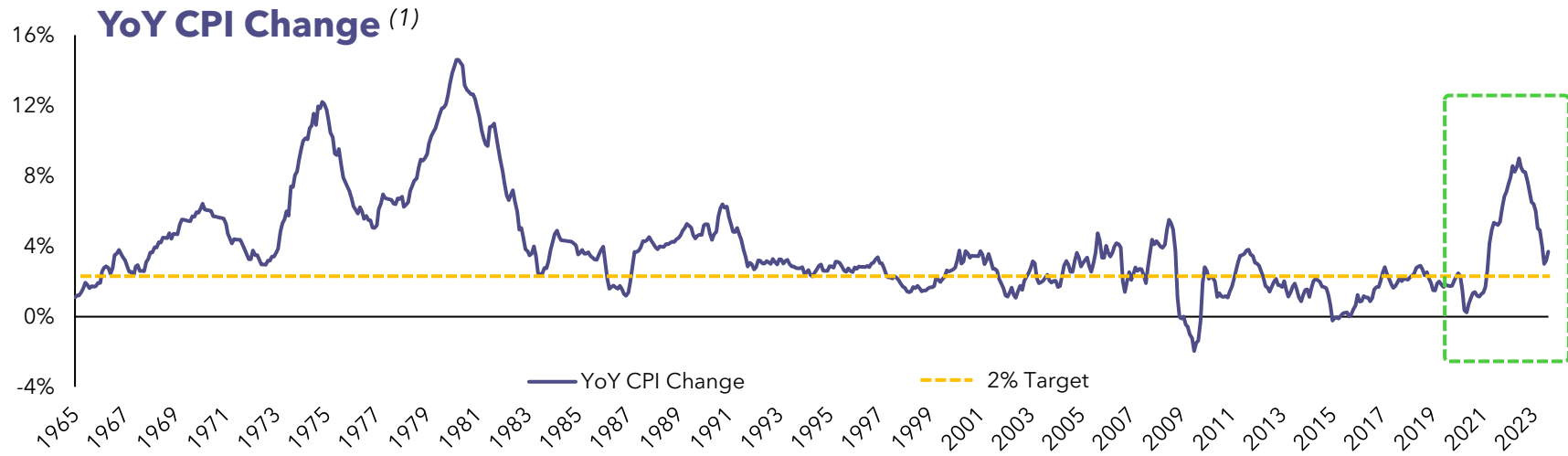
Earnings forecasts remain strong as margins continue to improve and growth stays steady

S&P 500 - Earnings by Year ⁽¹⁾
12-month real EPS - inflation adjusted



Inflation

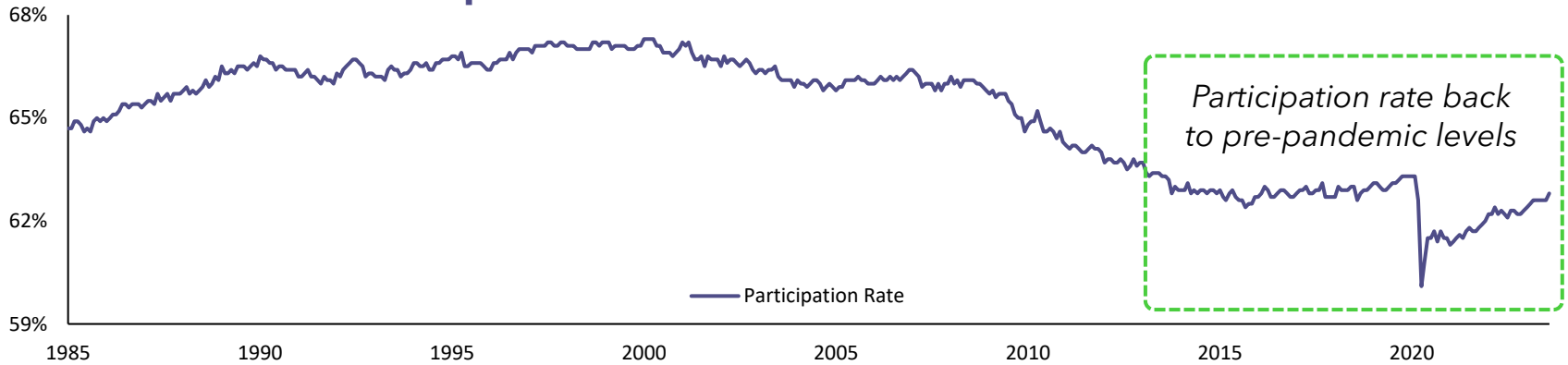
Inflation has come down as fast as it went up; higher than expected inflation in August CPI print was driven by fuel, services, and rent, which is lagging in nature



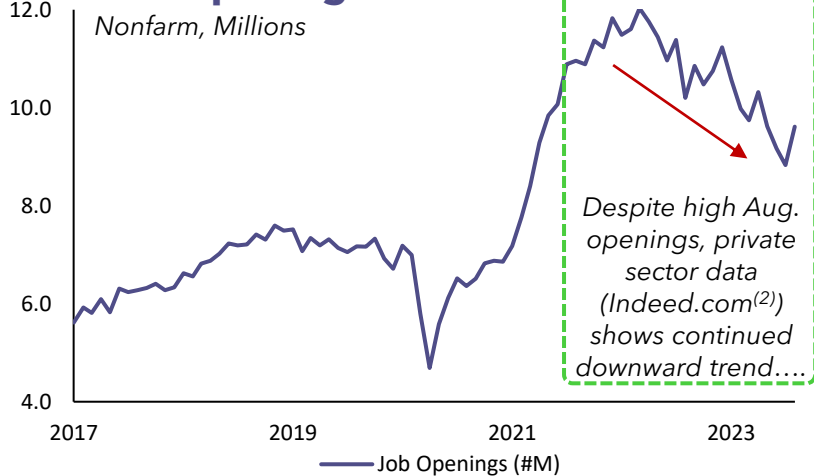
US Labor Markets

Labor markets continue towards pre-pandemic levels; despite higher-than-expected job openings in August, new hires and quits remained cool

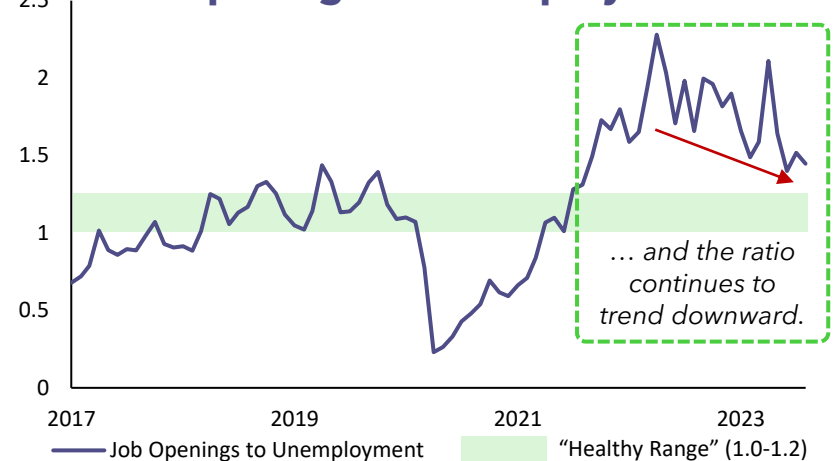
US Labor Force Participation Rate ⁽¹⁾



Job Openings ⁽¹⁾

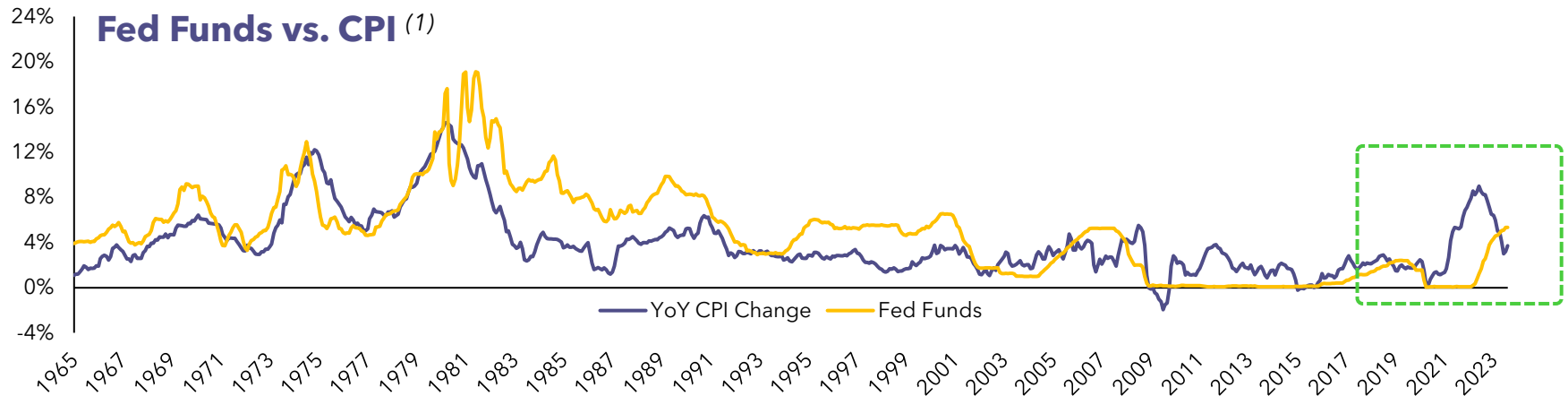


Job Openings to Unemployment Ratio ⁽¹⁾

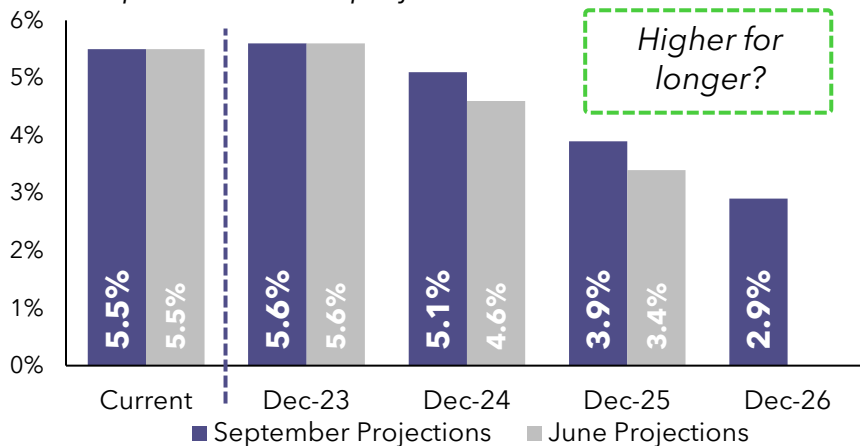


Interest Rates

Recent Fed projections cite higher rates for longer, but with inflation and labor pressures easing, rates may be cut sooner rather than later



FOMC Fed Funds Projections – Sep-23 vs. Jun-23 projections (1)



10-Year Government Bond Yields (2)

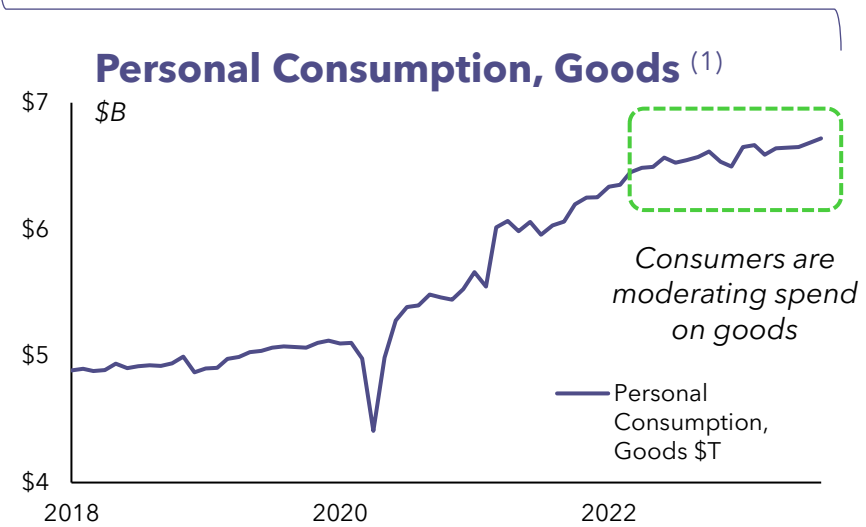
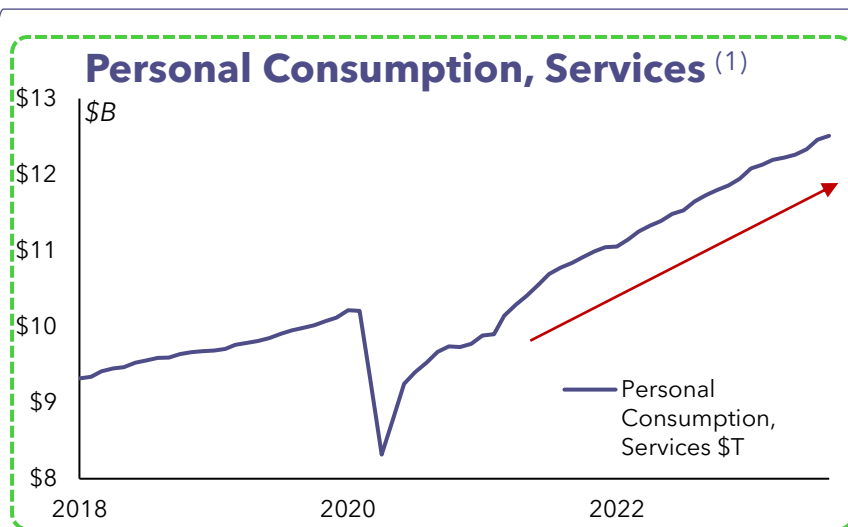
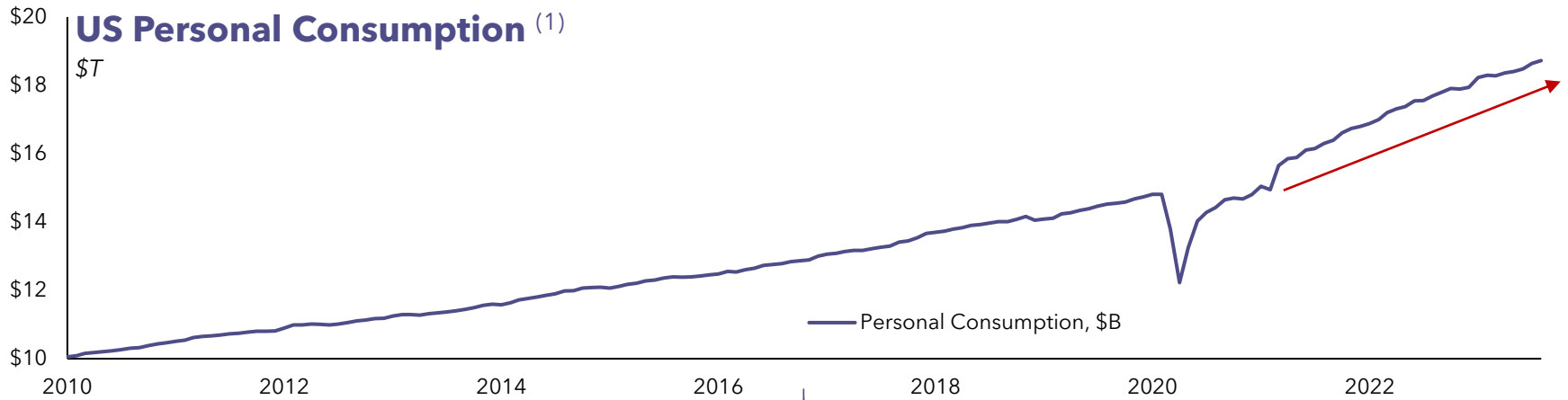
Americas		EMEA	
Canada	4.02%	Switzerland	1.01%
United States	4.54%	Germany	2.80%
Mexico	9.90%	Netherlands	3.14%
Brazil	11.77%	France	3.36%
APAC		Greece	4.26%
Japan	0.73%	United Kingdom	4.32%
Singapore	3.41%	Italy	4.74%
South Korea	4.03%		
Australia	4.40%		
New Zealand	5.20%		
India	7.15%		



Consumer Resilience

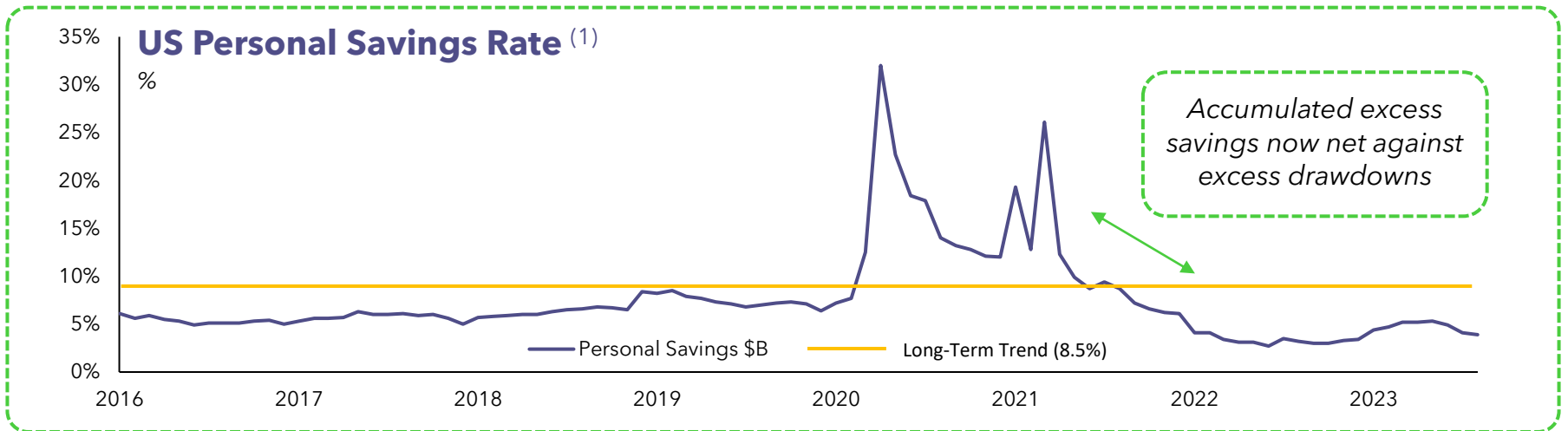
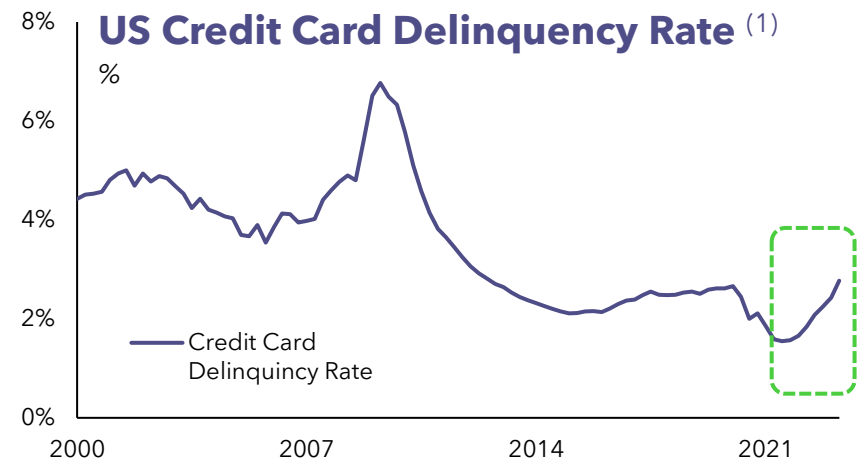
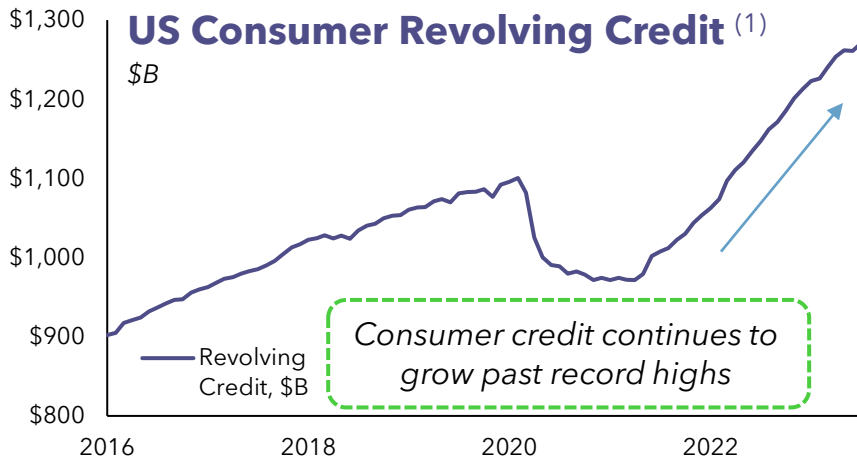
Consumer Consumption

Slowdowns in B2B sectors were not seen among American consumers; consumption has sustained, but is moderating across sub-categories (just like inflation)



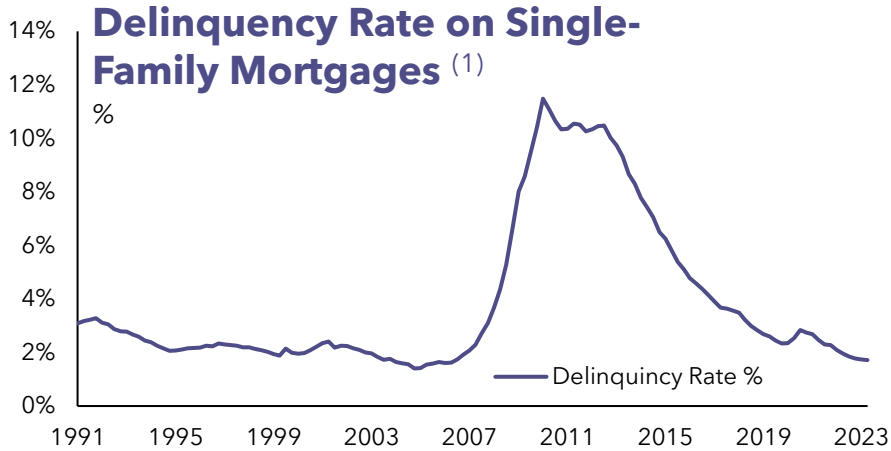
Consumer Debt

Americans are relying on credit cards to maintain their levels of consumption and appear to have finally worked through pandemic savings



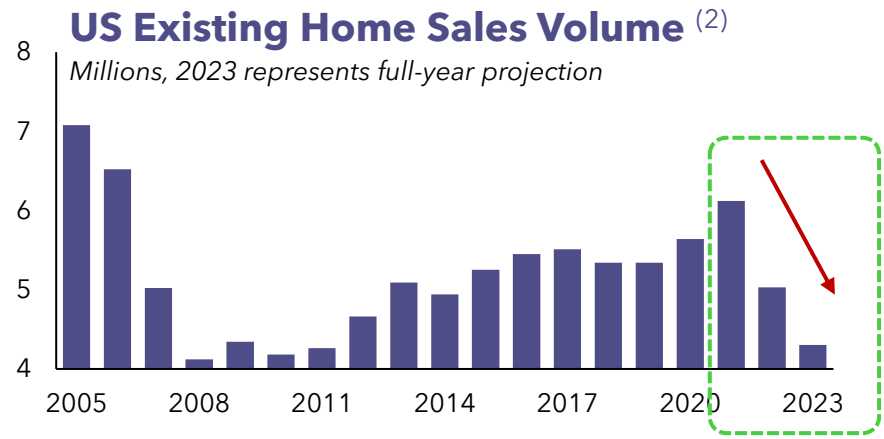
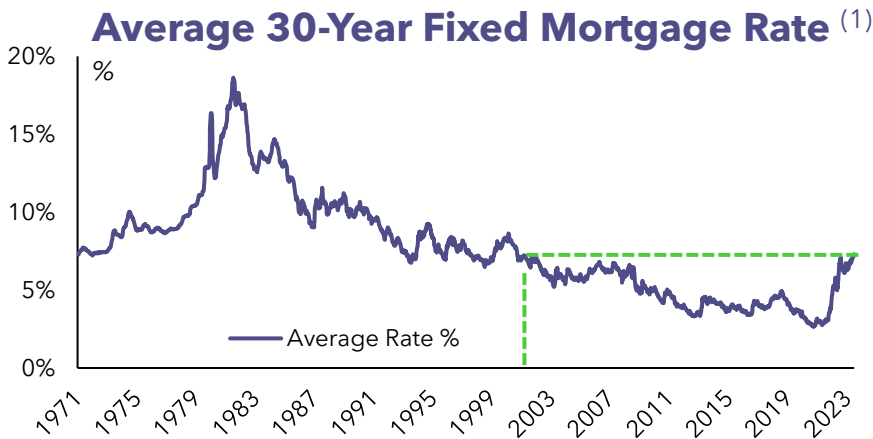
Residential Real Estate

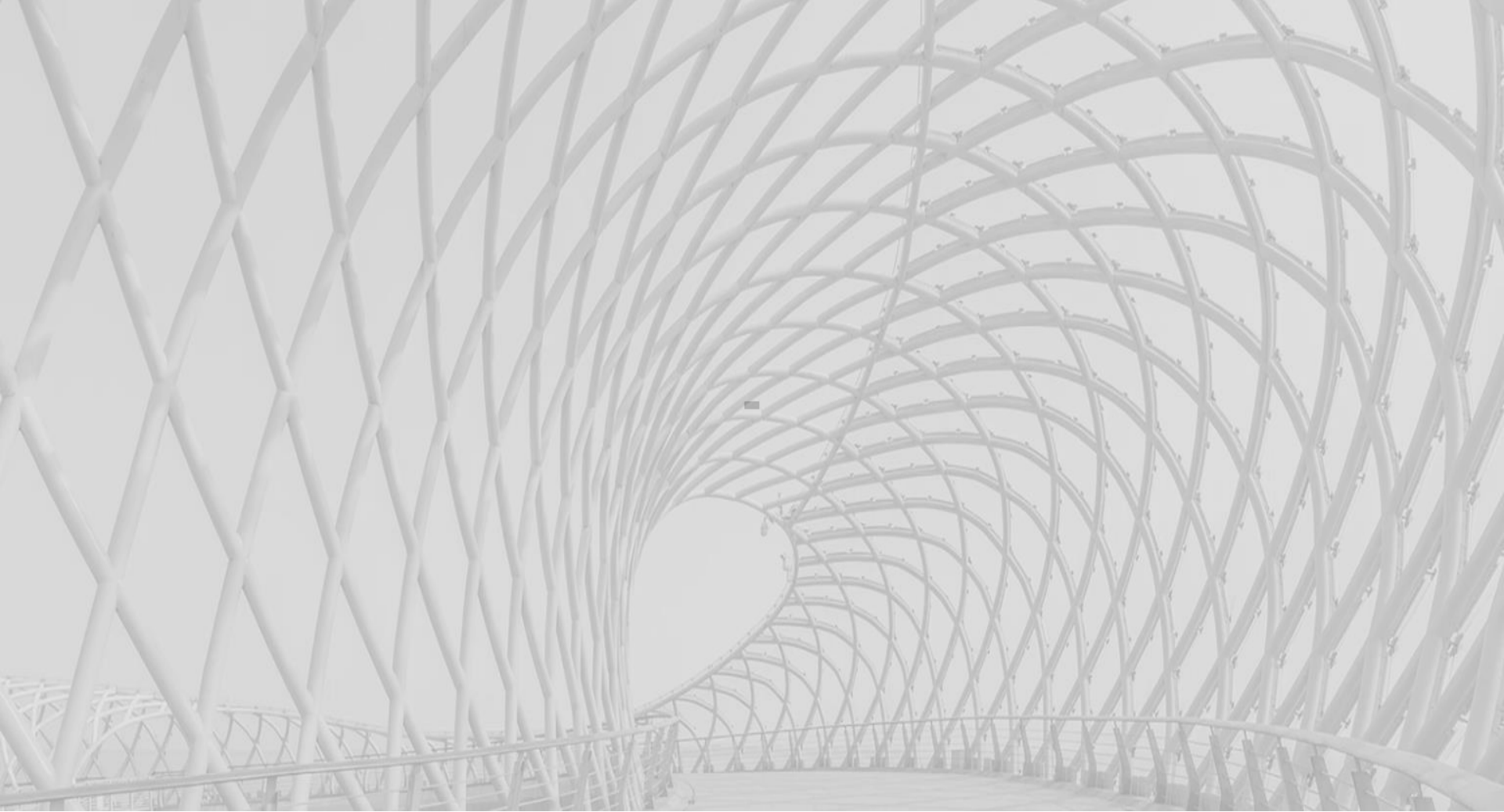
Unlike credit cards and auto loans, mortgage delinquencies remain low; housing prices remain steady driven by fewer home sales and continued low housing inventory



Adjustable-Rate Mortgages and Housing Prices ⁽²⁾

- From 2010-2022, adjustable-rate mortgages (ARMs) represented just 2-8% of mortgages in the US
- Existing ARM mortgages are typically for high-end real estate
- The popularity of 30-year fixed rate mortgages secured at lower rates and continued low inventory have kept US housing prices steady





Deal Outlook

Deal Activity Poised to Rebound

With the rate outlook better defined and regular mention of a soft landing, risk appetite among investors is returning

Factors Driving Deal Activity:



Macro Stability

- Stable prices and markets make planning and underwriting deals possible



Deployment Pressure

- Pressure to deploy and provide liquidity to LPs continues to rise against the typical fund life



Debt Activity

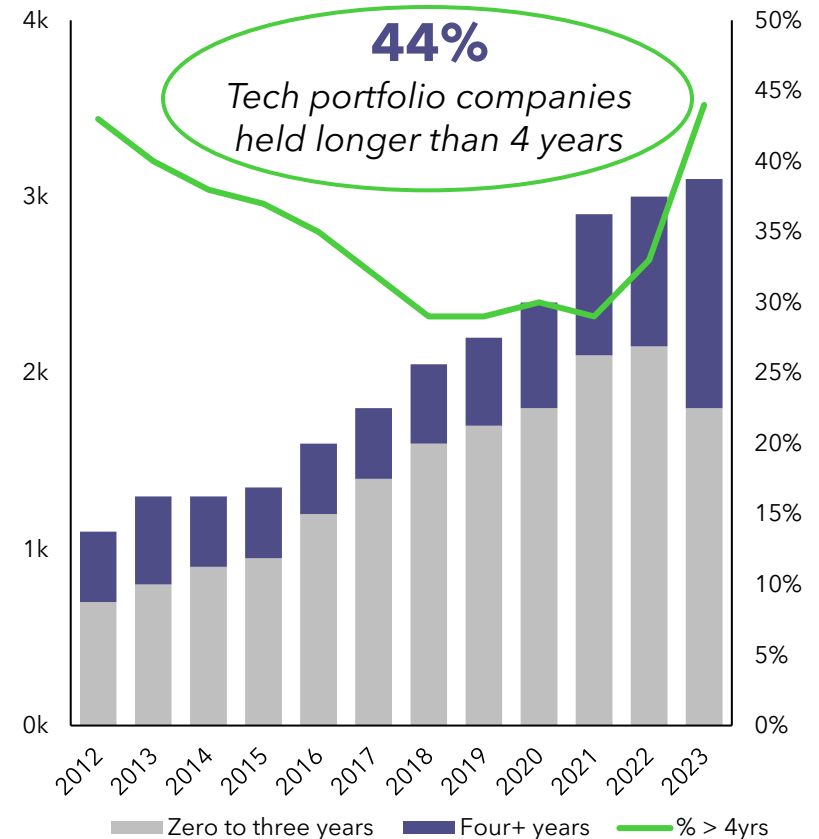
- Lending has picked up led by a clearer macro picture and tighter standards



IPO Markets

- Tech IPOs are being received by public investors at new market valuations

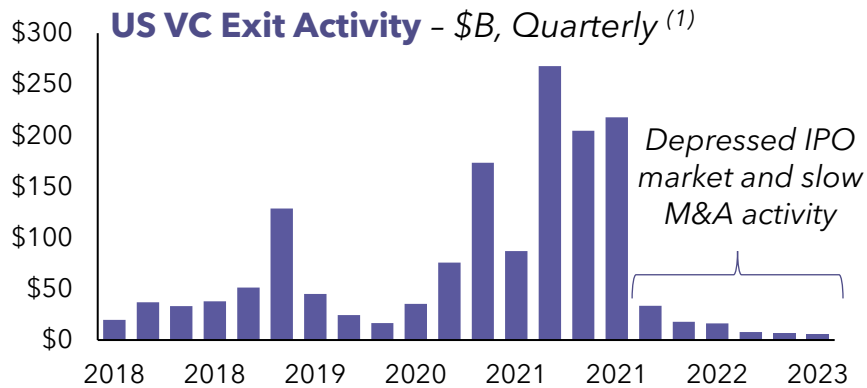
Tech Buyout-Backed Companies - Time in Portfolio, Global Count ⁽¹⁾



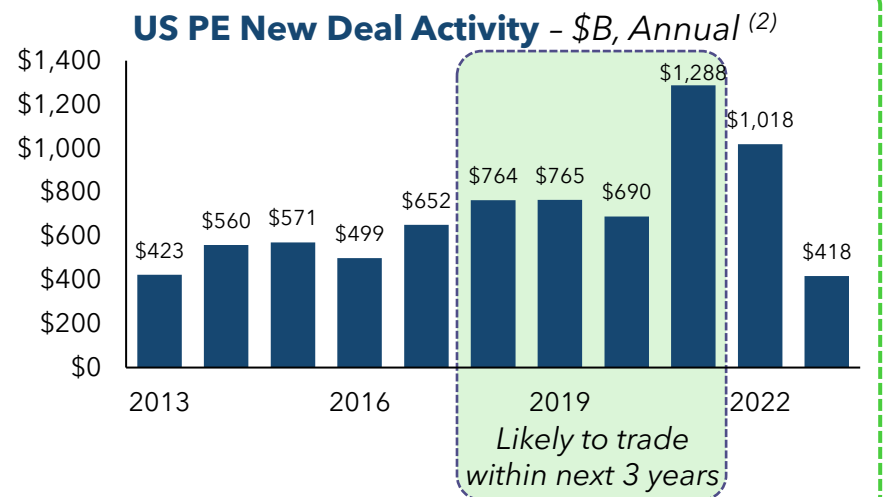
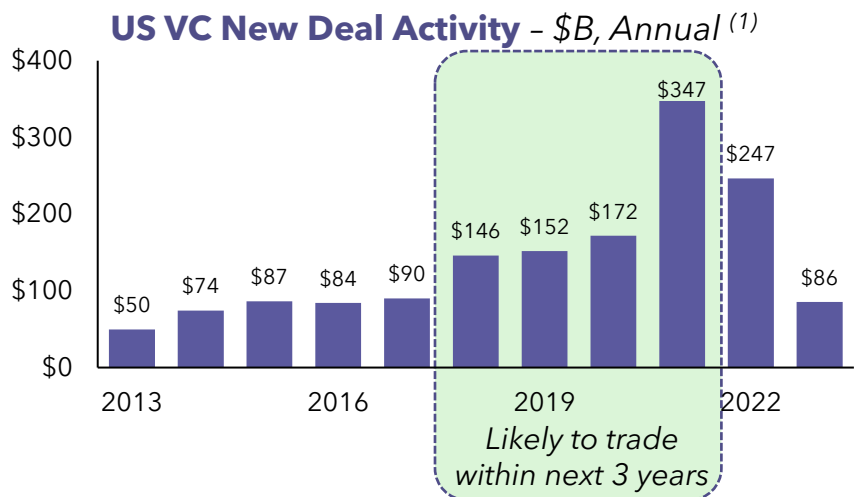
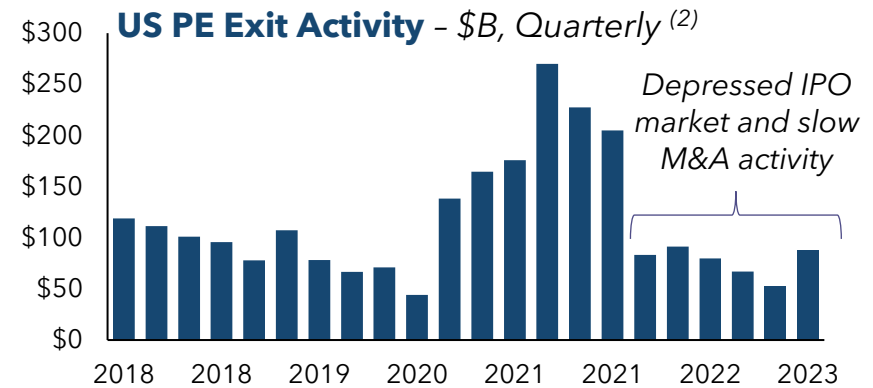
Private Market Backlog

Following a frenzy of exits and new deals in 2020-2021, a backlog of portfolio companies points to a coming buyer's market

US Venture Capital Activity



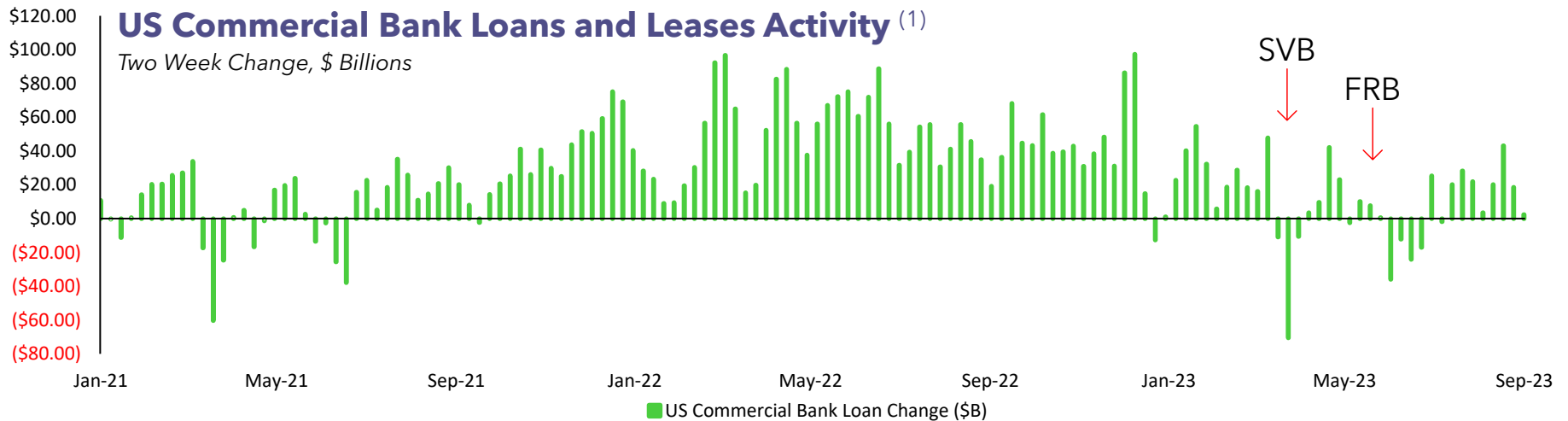
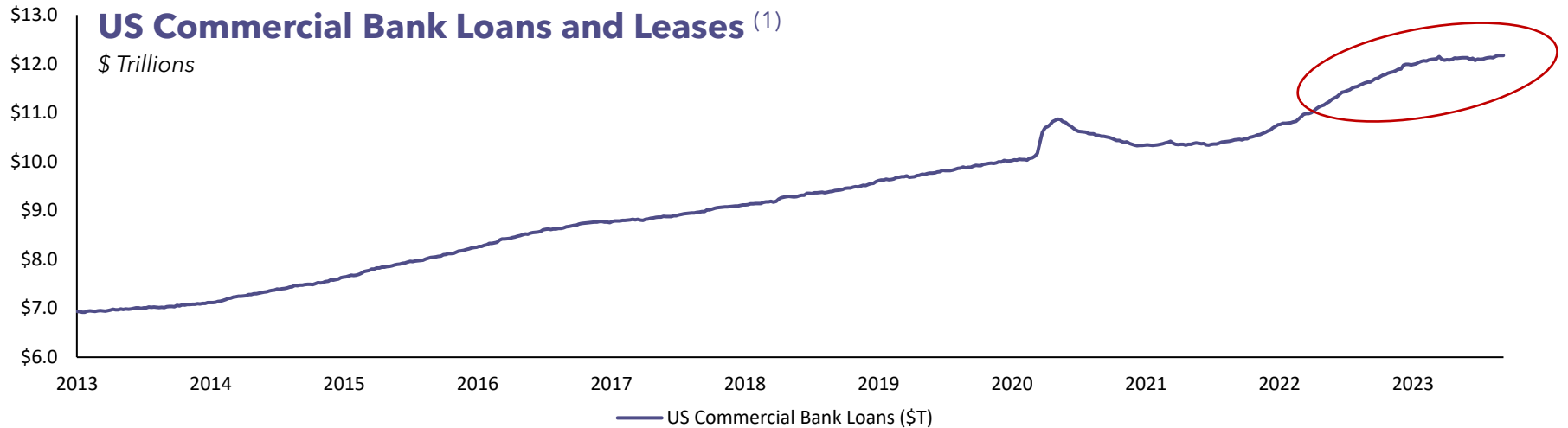
US Private Equity Activity



Source:
 1. [Pitchbook NVCA Venture Monitor](#)
 2. [Pitchbook US PE Breakdown](#)

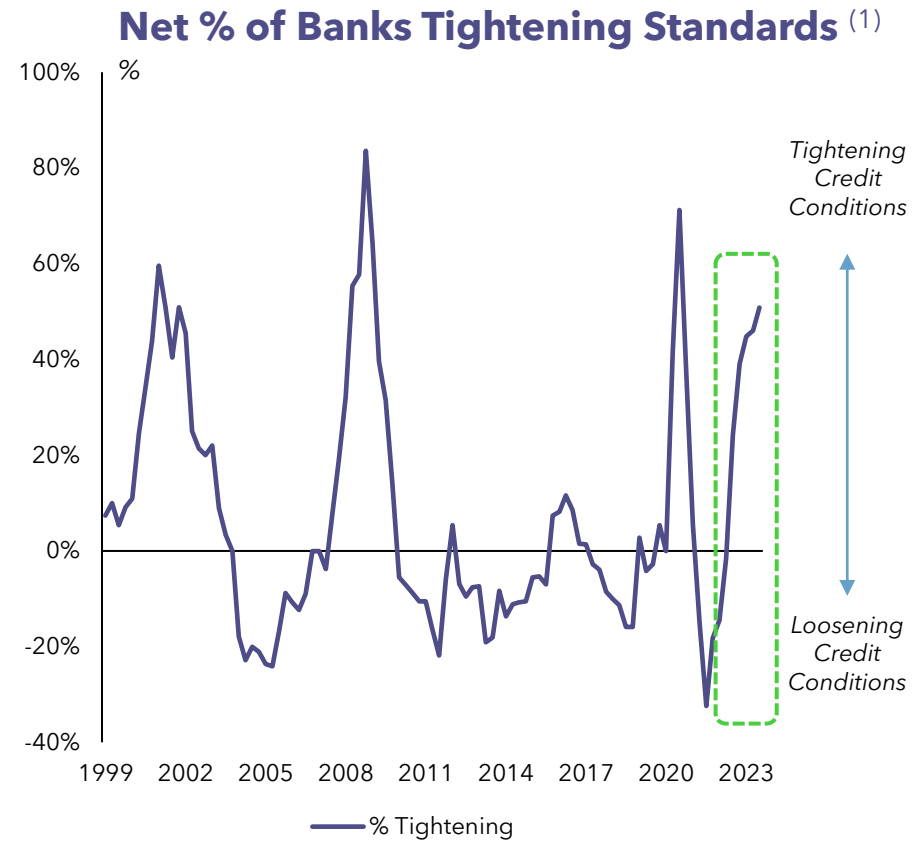
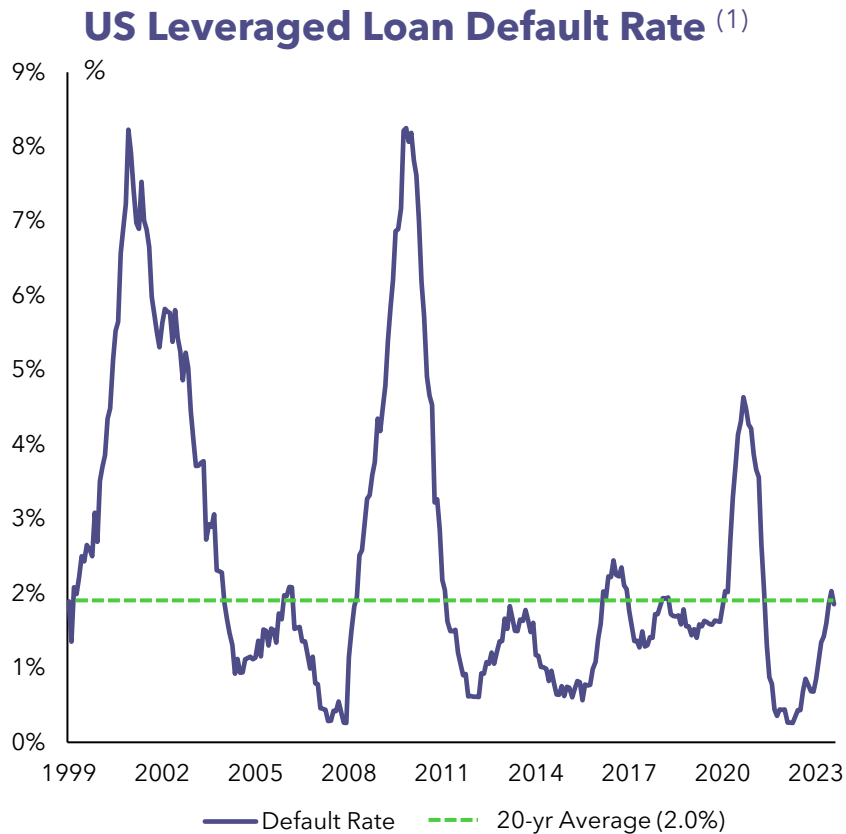
US Bank Lending

Despite a slowdown earlier this year following the bank failures, lending has started to return in recent months



Credit Markets

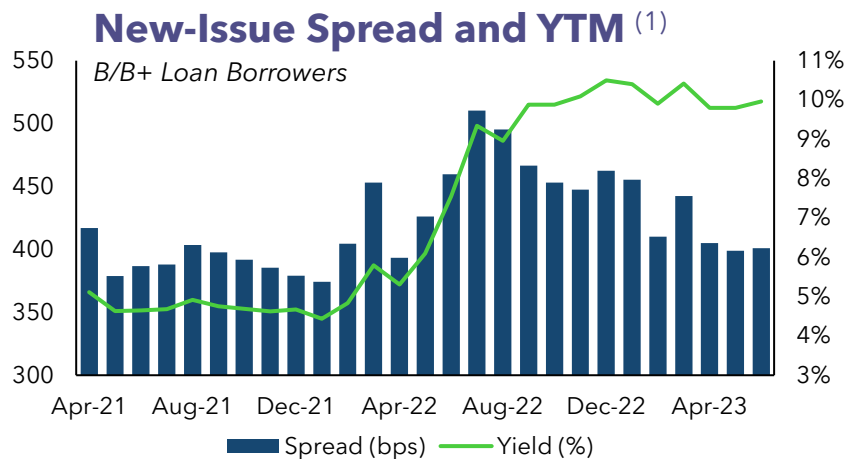
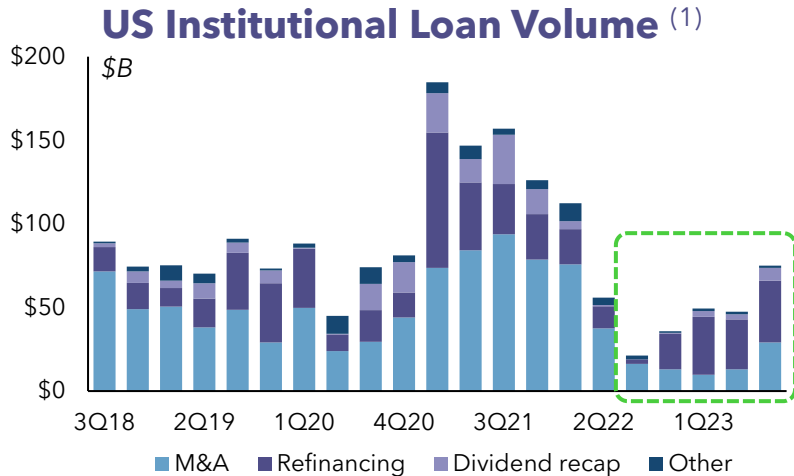
Fed senior loan officer surveys show bank lending standards tightened prior to bank failures as bank risk divisions anticipated an eventual recession



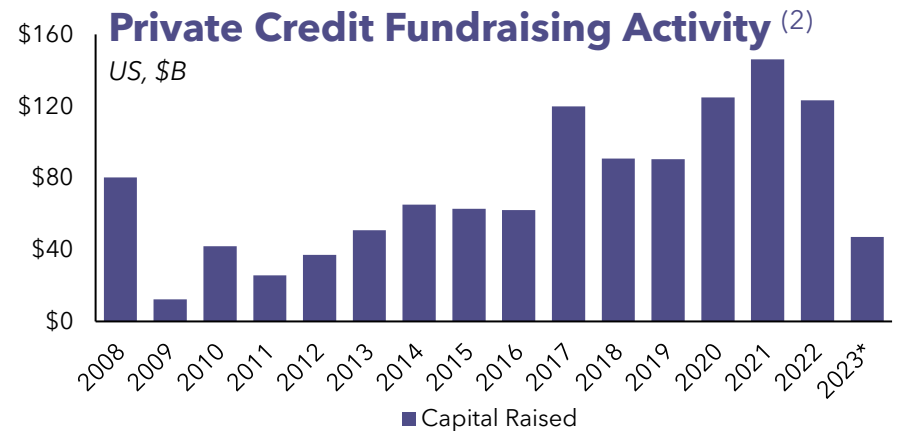
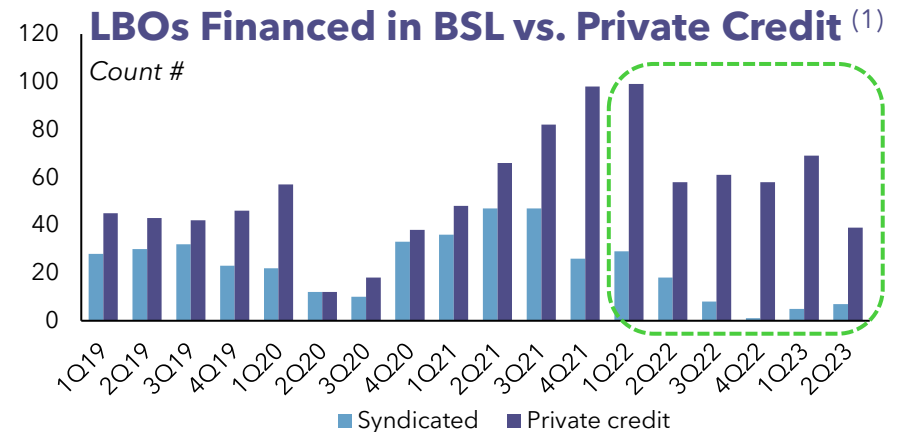
Defaults are not happening due to interest rates, but instead due to fundamental business model problems

Loan Activity

Q3 institutional loan issuance was the highest since the beginning of the Fed's hiking cycle; private credit lending has kept the LBO market active



Private Credit Activity

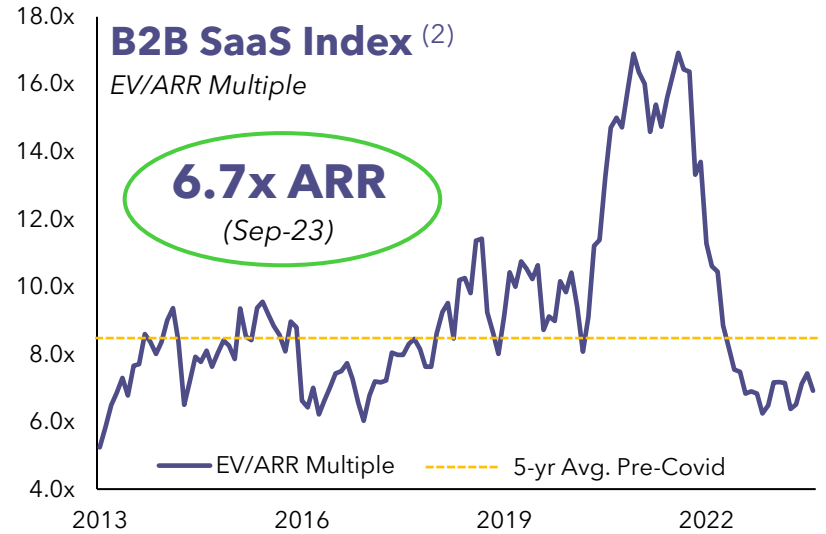
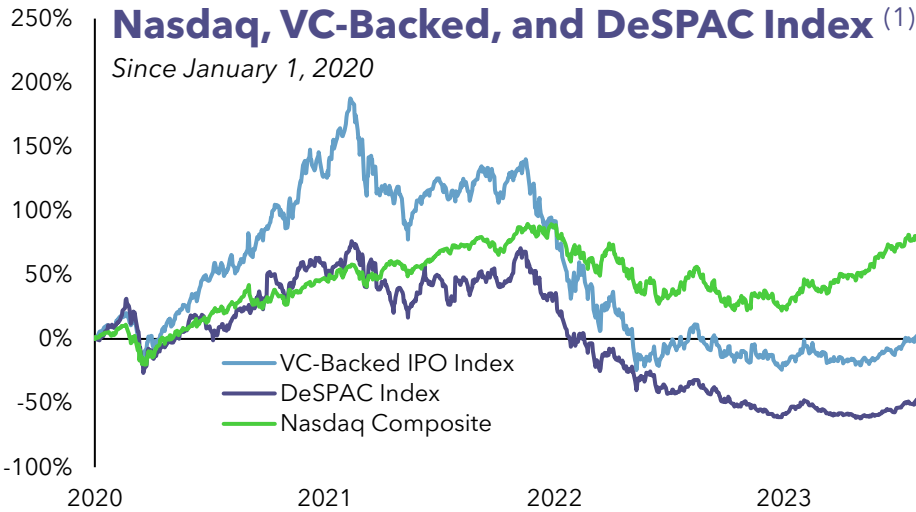


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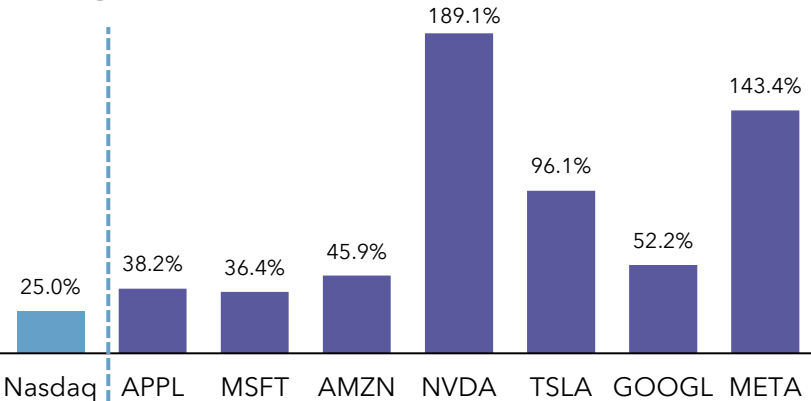
Source:
 1. LCD
 2. Pitchbook - Quantitative Perspectives

Public Markets

Mega cap stocks have driven public returns to date



"Magnificent 7" – YTD Returns (1)



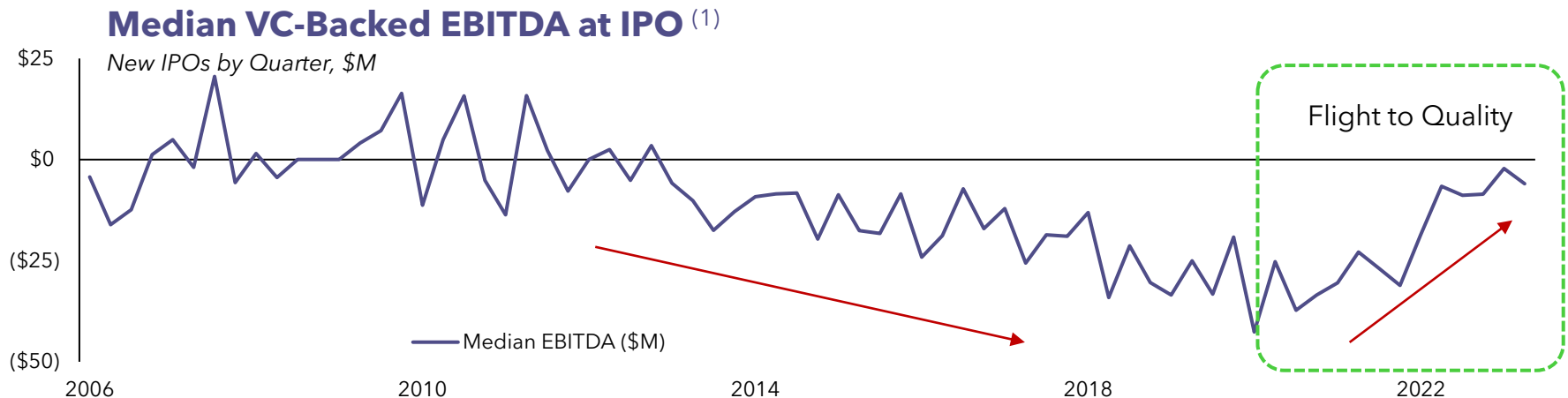
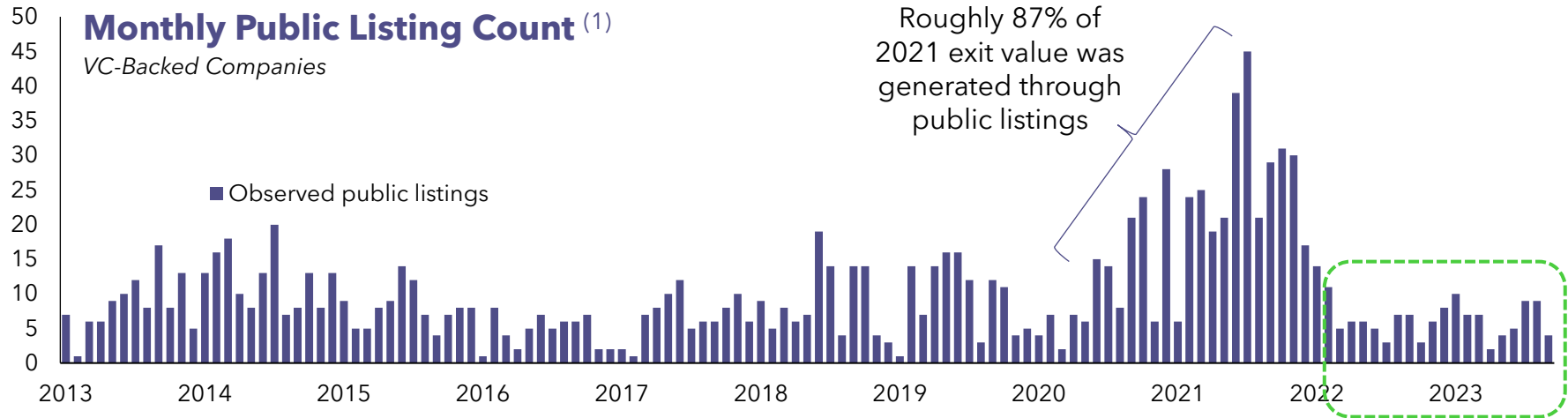
Nasdaq Composite Weighting (3)

Ticker	Name	Weight
APPL	Apple	12.53%
MSFT	Microsoft	10.98%
AMZN	Amazon	6.14%
NVDA	Nvidia	5.03%
TSLA	Tesla	3.72%
GOOGL*	Alphabet	7.21%
META	Meta Platforms	3.12%
Total		48.73%

Similarly, ~30% of S&P500 weighting is tech, not including "tech" companies in consumer discretionary (AMZN, TSLA) or communication services (GOOGL, META)

IPO Markets

High interest rates, declining valuations, and relatively low public market performance have made a difficult IPO environment, but a backlog of companies awaits



Case Study – Recent IPOs

Recent tech IPOs point to mixed signals in the public markets



Designer of instruction sets for modern chips

Business Model: License + royalty

Key Metrics ⁽¹⁾:

TTM Jun-23	\$2,662M
YoY Growth	-1%

Gross Margin	96%
Operating Margin	19%
EBITDA Margin	23%

Enterprise Value (EV)	\$47.29B
EV : TTM Multiple	17.8x
Return Since IPO	-8.03%

- Forecasts 65% forward EBITDA margins ⁽⁴⁾



Grocery marketplace and delivery service

Business Model: Take-rate

Key Metrics ⁽²⁾:

23Q2 Annual Run-Rate	\$2,864M
YoY Growth	15%
GMV Take-Rate	7%

Gross Margin	75%
Operating Margin	16%
Free Cash Flow Margin	18%

Enterprise Value (EV)	\$4.95B
EV : ARR Multiple	1.7x
Return Since IPO	-19.1%

- \$2.69B raised in private markets
- Last valued at \$39B in Mar-21
- Annual Run-Rate above represents revenue net of take-rate



Marketing automation platform for SMBs

Business Model: SaaS licenses

Key Metrics ⁽³⁾:

ARR	\$658M
YoY Growth	51%
Net Rev. Retention	119%

Gross Margin	77%
Operating Margin	13%
Free Cash Flow Margin	24%

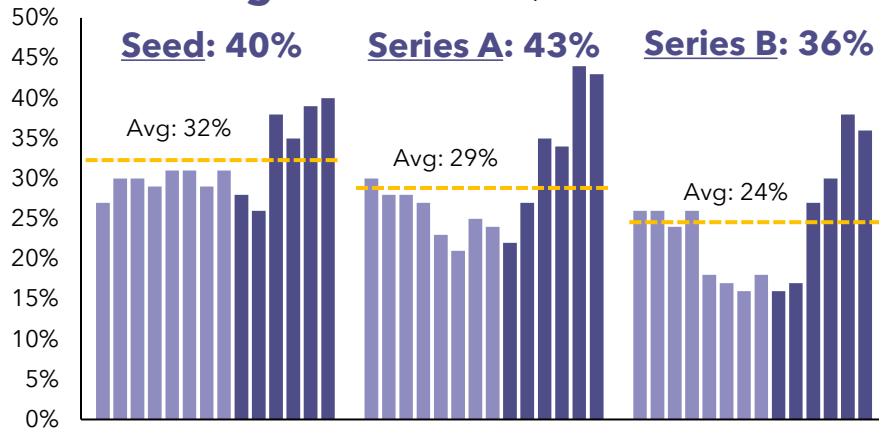
Enterprise Value (EV)	\$6.92B
EV : ARR Multiple	10.5x
Return Since IPO	-4.16%

- \$455M raised in private markets
- \$15M burned to date
- Last valued at \$9.5B in Jul-22

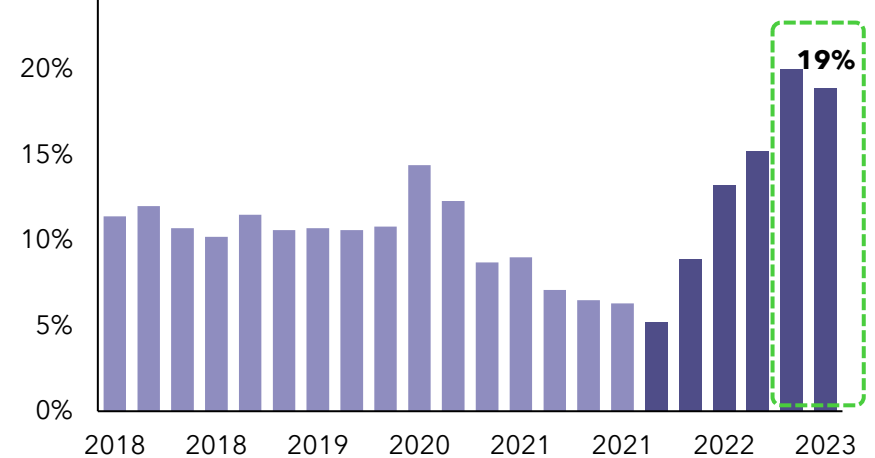
Venture Market Updates

A reversal in investor-favorable valuations and structures may signal the bottom was hit

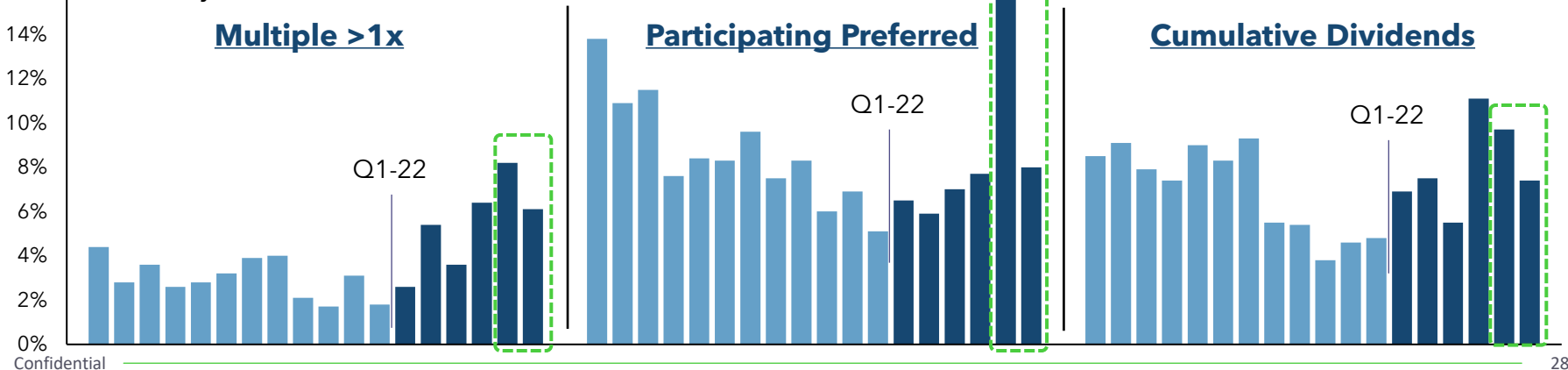
VC Bridge Rounds – %, Q1-20-Q2-23



VC Down Rounds – % Quarterly



VC Deal Structures – % with Stated Terms, Quarterly Q1-19 - Q2-23



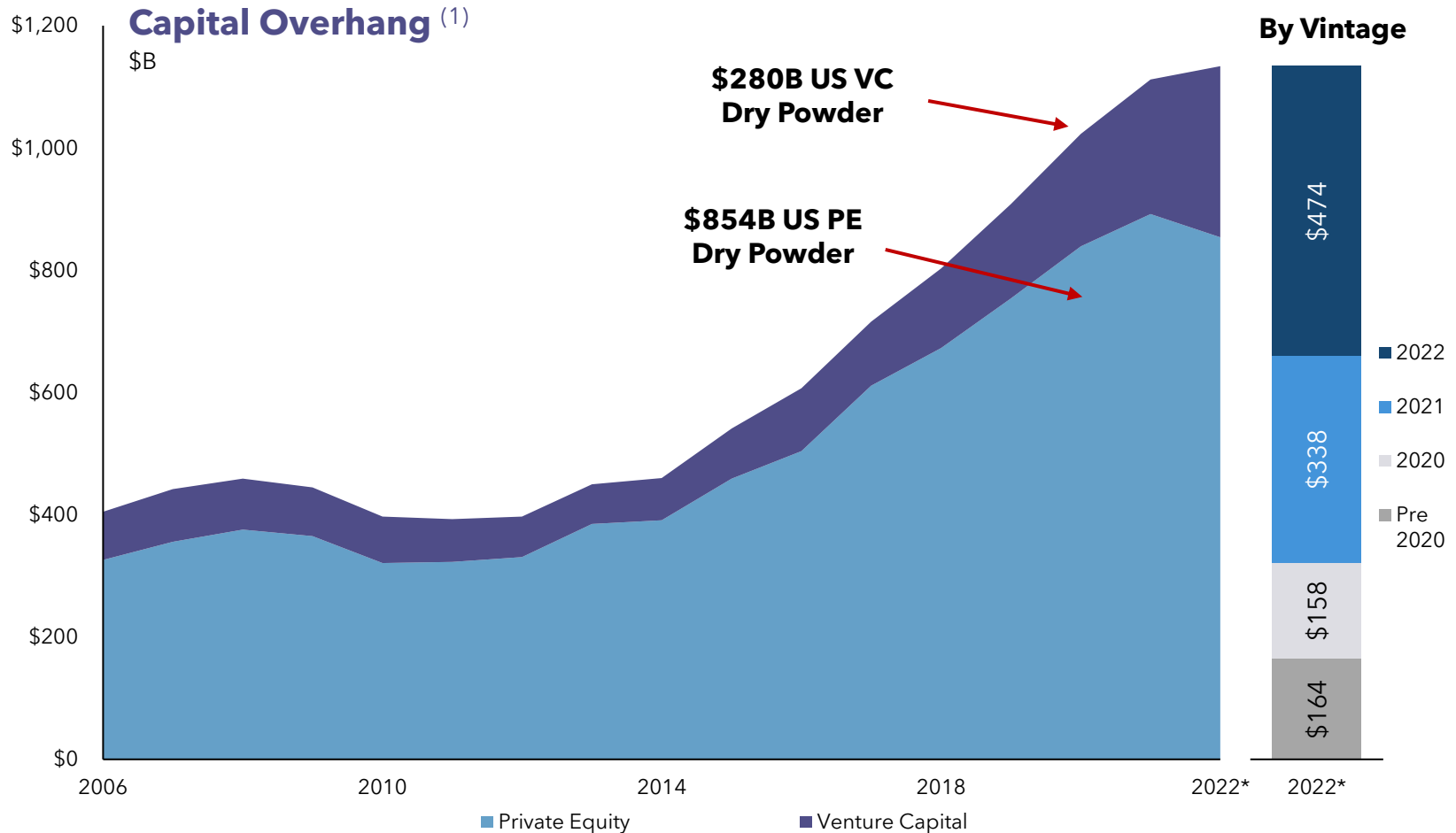
Confidential

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Source:
1. Carta

Capital Supply and Demand

Reduced exits, extended hold times, and steady dry powder reserves point toward an incoming wave of asset exits that will create a competitive buyer's market

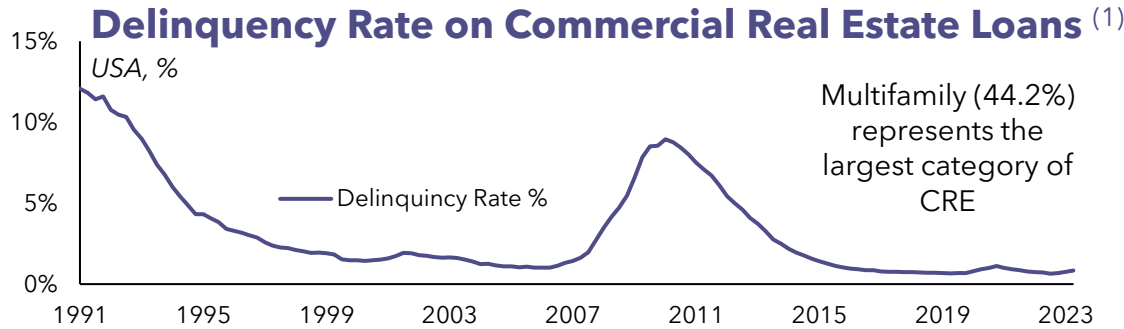




Other Macro Factors

Commercial Real Estate

Office sector (17% of CRE mortgage exposure) remains watched as vacancies continue

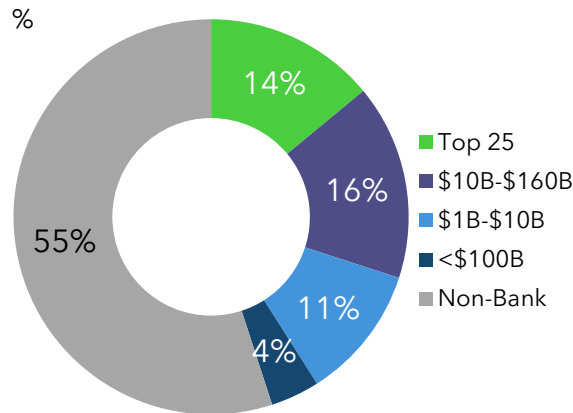


Office Vacancy Rates ^(2,3)

Q2-23

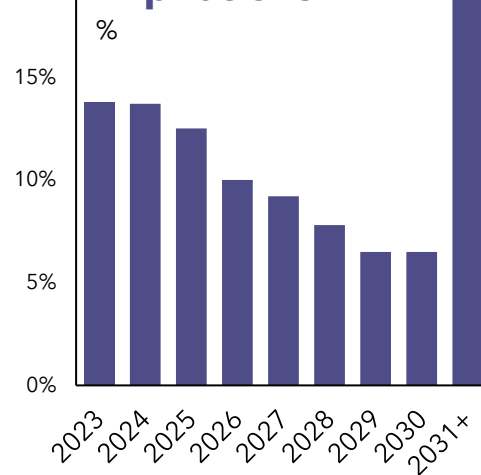
City	Vacancy Rate
United States	17.1%
Houston	23.2%
San Francisco	21.7%
Chicago	19.4%
Dallas	18.1%
Manhattan	17.4%
Washington DC	14.8%
Los Angeles	14.1%
Philadelphia	12.9%
Miami	12.8%
Boston	10.0%
International	
Sydney	15.9%
Beijing	10.3%
London	9.5%
Paris	8.0%
Singapore	6.5%
Berlin	4.8%
Tokyo	4.8%
Seoul	2.0%

Share of Total CRE Loans by Bank Size ⁽⁴⁾



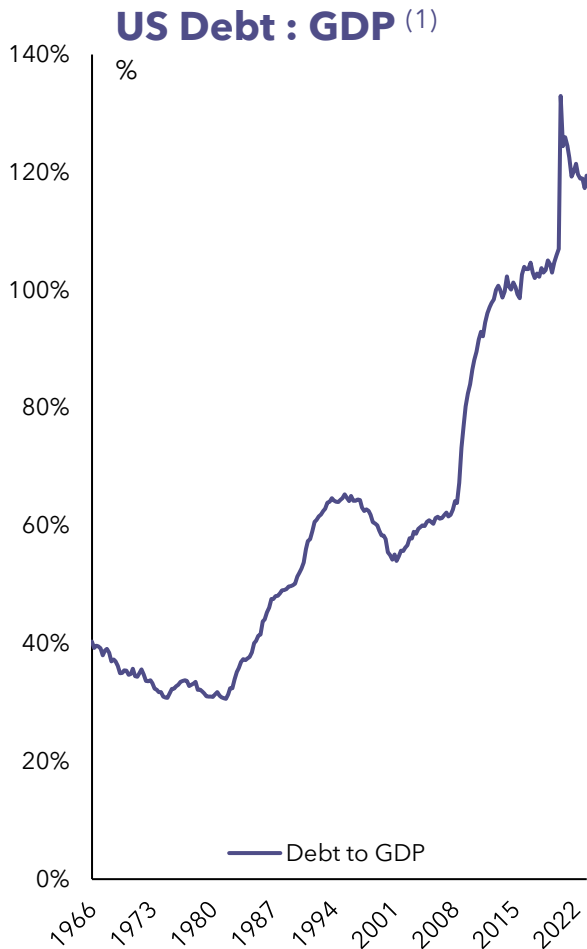
Banks outside the top 100 based on assets have financed ~20% of all CRE mortgages, diversified across 4,600 institutions

NYC Commercial Office Lease Expirations ⁽⁵⁾



United States Deficit

Federal debt is on an unsustainable path, caused by a structural mismatch between spending and revenues

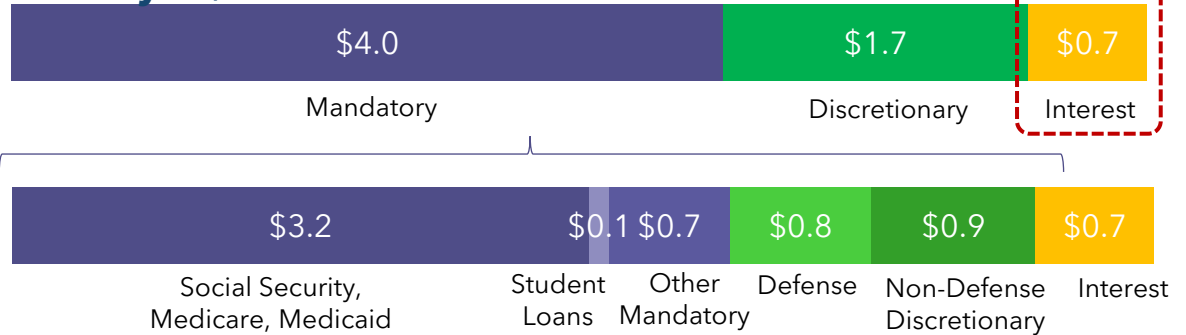


Federal Budget FY 2023 (2)

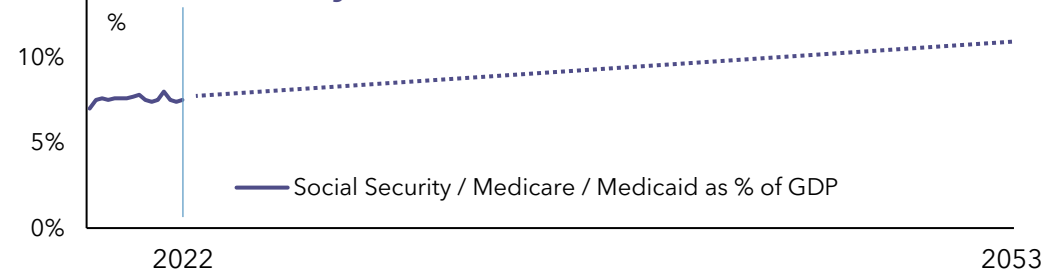
Revenues: \$4.8T 18.4% GDP



Outlays: \$6.4T 24.2% GDP



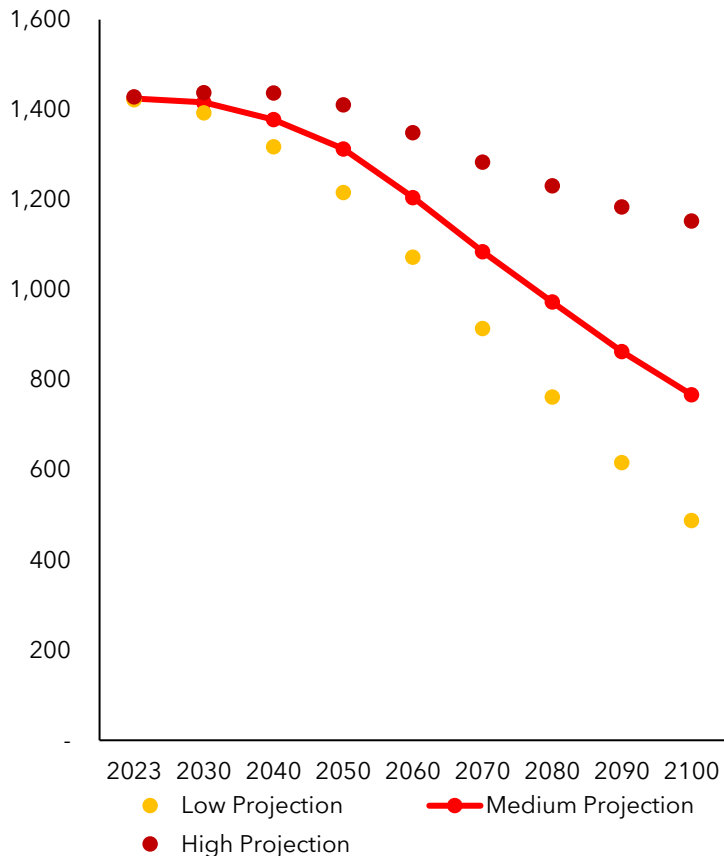
Social Security, Medicare, Medicaid as % of GDP (1)



China

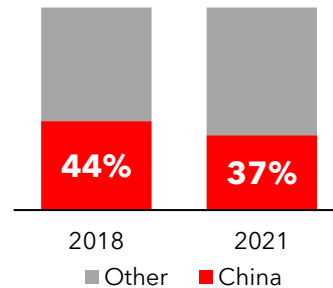
Structural problems, shrinking labor, and ongoing trade disputes have triggered a new round of growth downgrades for China

China's Population Projections⁽¹⁾



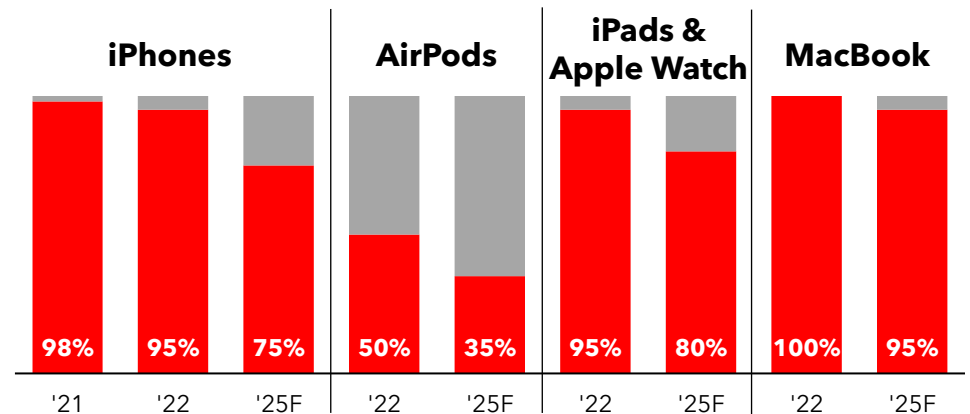
Foreign Diversification Away from China

Apple Suppliers by Geography⁽²⁾



- Foreign direct investment in China has gone down (Tesla notable exception)
- Tech companies are diversifying their supply chains and talent pools to build resilience against global shocks
- Semiconductor industry is responding to government incentives in the US, Japan, and Germany

Apple Final Assembly Volume by Geography⁽²⁾





Conclusion

Conclusion

The rate outlook and macroeconomic picture are becoming more clearly defined; increased US economic stability will allow for a more sustained recovery to take hold



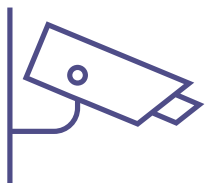
Economic Stabilization

- **Inflation** has come down as fast as it went up; remaining items volatile or lagging
- **Labor** market close to pre-pandemic levels; participation rate increasing
- Visibility into the **interest rate** outlook



Positive Market Signals Emerging

- Broader **lending** activity increasing; defaults and spreads remain low
- Large tech **IPOs** have been received in public markets, providing meaningful liquidity
- **Dry powder** remains high in addition to elongated hold times of portfolio companies



Long-Term Macro Risks Present

- Minimal impact to **consumers** to date despite record consumer debt
- United States **office vacancies** remain high
- Global financial system digesting record high debt and **increased rates**
- Deglobalization and **geopolitical conflicts**



Chris Legg
Senior Managing Director



Adriaan Zur Muhlen
Managing Partner



Brett Chatfield
Vice President





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