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NEW STIFEL SURVEY EXAMINES IMPACT OF COVID-19 ON GLOBAL TECHNOLOGY COMMUNITY

Exits to Slow, Potential Add-On Acquisitions Eyed, and Customer Churn Limited

St. Louis, April 17, 2020 – A new Stifel Financial Corp. (NYSE: SF) survey of nearly 300 technology executives, entrepreneurs, and private equity (PE) and venture capital (VC) investors finds most expect the COVID-19 crisis to have a lengthy impact on business operations, leading to a U-shaped economic recession. At the same time, the survey indicates that a majority of companies appear to have sufficient liquidity to weather the storm and potentially eye add-on acquisitions.

Key survey highlights include:

- The majority of PE/VC respondents (62%) expect to see a business impact from COVID-19 on their portfolio companies for more than six months, while nearly half of tech executives/entrepreneurs (46%) are also planning for disruption lasting at least half a year.

- Most (55% of executives/entrepreneurs and 65% of PE/VC investors) expect a U-shaped recession.

- A majority of PE/VC investors (76%) and executives/entrepreneurs (55%) are planning to pursue add-on acquisitions or will push their portfolio companies to do so as the tech sector faces COVID-19 business disruptions.

- Executives/entrepreneurs are slightly more optimistic about 2020 revenue projections with one-third (34%) expecting to meet their budget goals, but just 19% of PE/VC investors believe their portfolio companies can reach that achievement.

- Customer churn doesn't seem to be a problem yet, with roughly 77% of executives/entrepreneurs and 76% of PE/VC investors reporting less than 5% churn in recurring revenue.

"Our technology industry clients and their investors appear well-positioned to withstand the immediate negative impacts of COVID-19," said Cole Bader, Co-Head of the Stifel Global Technology Group. "While a natural slowdown in activity is expected, we believe that technology will be the key driver of a global economic recovery and the sector will continue to grow strongly post-pandemic."

“Interestingly, the majority of our PE/VC respondents are only forecasting a modest reduction in prices for acquisitions and sales of technology assets and expect to continue with add-on acquisitions for portfolio companies,” added Patrick Seely, Co-Head of the Stifel Global Technology Group. “Deal activity may slow, but it clearly won’t stop.”

The online survey of 270 global technology executives, entrepreneurs, and investors was conducted April 6-12, 2020.

PE/VC Responses

- Most respondents (65%) expect to delay any portfolio company exits planned for the first half of this year to 2021. 30% said their planned exits would be delayed by 3-6 months, but would take place before the end of 2020. Only 5% plan to continue along pre-existing timelines.
- Almost every respondent said they expect valuations they will pay for companies in 2020 to decrease at least somewhat. 54% of respondents expect valuations to come down 5%-20%, and 43% of respondents saying they expect valuations to come down more than 20%.
- Similarly, sale prices for portfolio companies are also expected to decrease, with 73% expecting valuations to come down a modest 5%-20%, while nearly a quarter (24%) of respondents expect valuations to come down more than 20%.
- Over half (53%) of respondents reported no change in their approach to new “platform” investments, while 40% said they are pursuing value-based deals. Only 7% of respondents have put their investing approach on hold.
- The overwhelming majority of respondents (95%) said their Limited Partners are not pressuring for short-term liquidity.

Executive/Entrepreneur Responses

- The vast majority (70%) of respondents say their investors and debt providers have been very supportive, with another 27% saying they’ve received partial support. Only 3% say their investors and debt providers were unable to support them at all.
- Most respondents (66%) believe they have enough liquidity to handle more than 12 months of an economic downturn, while 31% have the liquidity to handle less than 12 months of a downturn. 3% do not have sufficient funds to handle any downturn.
- Over half of those surveyed (52%) do not expect to initiate layoffs as a result of the economic crisis caused by COVID-19. Another 39% expect layoffs but believe the impact will be minimal. Only 9% of executives/entrepreneurs believe that there will be layoffs with significant impact.
- 60% of technology executives/entrepreneurs surveyed believe the federal government’s responses have been adequate to support the economy or their business, while 40% say the response has been inadequate.

Click here to view the full survey results.

Stifel Company Information

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Media Contacts

Neil Shapiro, (212) 271-3447
shapiron@stifel.com

Jeff Preis, (212) 271-3749
preisj@stifel.com