SWAN Ventures, General Partnership Update - April 2020

Overview of Situation in US and Pacific Northwest

Greeting in Japanese – Hiroshi Matsui/Tetsuro Eto

Response to COVID 19

- Through mid March Washington state was the epicenter for COVID 19 in the USA.
- The first case in January was traced to a Chinese immigrant from Wuhan. The disease quickly spread in Seattle and elsewhere with particularly tragic consequences at a nursing home in Kirkland where 35 patients died.
- The governor responded quickly and aggressively with distancing and suspension measures.
- COVID cases/deaths have peaked in Washington as well as across the Pacific Northwest and have begun to decline.
- The governor's measures are currently due to expire on May 4th but that date is subject to change. There are at least 10,538 confirmed coronavirus cases with at least 516 deaths in Washington, according to the latest Department of Health numbers as of 11:59 p.m. April 12.
- All K-12 schools will remain physically closed for the remainder of the school year. The state's more than 1.2 million public and private K-12 students will continue distance learning until the end of June.
- The state DOH and the CDC are recommending the public wear simple, non-medical cloth masks or face coverings when out in public places where social distancing may not be maintained.

Early Stage Company Funding

- Funding efforts by early stage companies have converted to an online format quickly.
- Angel groups continue to meet online.
- Venture companies continue to process company pitches.
- Due diligence work is still proceeding.

- It is obvious to all observers that the US is entering a major recession.
- Estimates for the near term US contraction range from 14% to 30%.
- Unemployment applications are already approaching 20M and are rising rapidly every week.
- The IMF expects the world economy to shrink by 3% in 2020--down from a projected 3.3% expansion which was forecast in January. For comparison, the world economy shrank by .1% in 2009 during the financial crisis.
- The rate at which companies are being funded has slowed materially--by at least 50%.
- Anecdotally, valuations for both existing or new deals are under substantial pressure, in certain cases declining by as much as 30 to 40%.
- A significant percentage of early stage companies will experience down rounds through at least yearend 2020.
- Exit discussions, whether by IPO or acquisition, have either been put on hold or substantially delayed.
- In biotech sector, clinical trials have been suspended for the foreseeable future.
- For information technology companies closing sales has become more difficult. The sales cycle has lengthened. Moreover, it has become difficult for these companies to get the attention of decision-making buyers who are generally in the mode of conserving cash and in many instances laying off employees.
- Early stage company CEOs have only tentatively begun to lower sales forecasts for 2020-2021.

Parallels with prior Recessions

- Assuming the early stage investing market follows the trends observed in prior recessions investors can expect the following:
- A significant number of early stage companies—and venture capital businesses--will fail in an environment where cash is king.
- Having cash on hand to survive (for up to a year or more) will become a critical criterion for investing in early stage companies.
- Companies with high burn rates (exceeding $50,000/month) will be at particular risk.
- Access to non-dilutive funding, especially from the US government, will become an increasingly important criterion for the foreseeable future.
- Pre-revenue companies which do not have access to non-dilutive funding will find it extremely difficult to raise funds.

- Certain sectors, such as biopharma, gene sequencing and other pandemic-relevant technologies will see substantially increased non-dilutive funding.
- Forthcoming bankruptcies will throw up very compelling opportunities to invest in early stage companies (or acquire the underlying technology).

SWAN Venture Group

- SWAN Venture Group is in a privileged position compared to peer venture firms as it has not yet made any investments as an institutional fund.
- SWAN Venture Group is therefore not burdened with the problem of having to support early stage portfolio companies that will need repeated cash infusions in order to survive what is expected to be severe recession.
- The SWAN Venture Group sourcing network for identifying and monitoring early stage companies remains fully functional and robust.
- SWAN Venture Group intends to continue providing value added information to clients, despite the limitations imposed by COVID 19.
- Clients and prospective clients are encouraged to continue providing “shopping lists” of the technologies in which they are interested.
- Our pipeline remains full and we continue to recommend interesting early stage companies to our current and prospective clients.
- We continue to keep a close eye on early stage companies that are in distress, offer exceptional technology and would be willing to negotiate accordingly.

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No registration based on Section 1, Article 4 of the Financial Instruments and Exchange Law (the "FIEL") has been made concerning the solicitation for the subscription for the fund interest of SWAN Institutional Fund, LP ("Fund Interest") as such solicitation falls into sub-item (i), Item 2, Section 4, Article 23-13 of the FIEL, and the Fund Interest is a right within the definition of "Securities" under Item 6, Section 2, Article 2 of the FIEL.