HTX FUNDING REVIEW

HOUSTON EXPONENTIAL
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The definitive review of the Houston funding landscape as of 7.31.20

HOUSTON BUCKS NATIONAL TREND WITH VC INCREASE DESPITE DOUBLE BLACK SWAN

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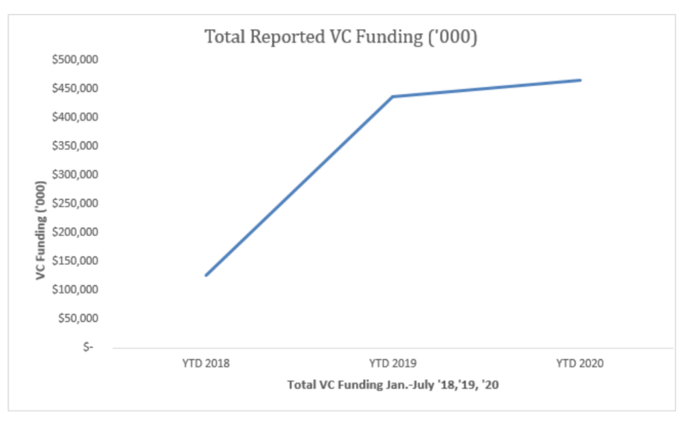
Despite a dramatic 64% drop in M&A activity* and very slight growth in venture capital funding nationwide, VC funding in Houston rose 7% for the first seven months of 2020, *as compared with a year earlier with deal activity reaching $466.3M. This remarkable performance marks three consecutive years of strong growth in deal value in the tech innovation ecosystem-–and comes despite the worst economic contraction in a century due to the COVID pandemic and, in Houston, the additional effects of a crisis in Houston's largest industry, energy.*

"This expansion in Houston's relatively new and booming tech innovation ecosystem shows a strength and resilience that is really exciting," said Harvin Moore, President of Houston Exponential ("HX"). **Houston tech firms raised over $466 million from January through July, compared with $437 million raised during that time frame in 2019** - an increase of 7%, three times higher than the national increase of 2.5%. Houston began 2020 with its first ever "unicorn", or private venture capital funding with a valuation of over a billion dollars. That $125 million raise by HighRadius was only slightly higher than the $121 million raised in 2019 by local biotech startup AlloVir, and so is not the sole reason for 2020's strength.



YTD (7.31.20) by Industry Sector			
Row Labels	Deal Count	Percent of Total	Deal Size (MM)
Healthcare	19	41%	206.40
Information Technology	10	22%	182.05
Consumer Products and Services (B2	8	17%	31.59
Business Products and Services (B2B)	5	11%	5.01
Materials and Resources	2	4%	30.65
Energy	2	4%	10.60
Grand Total	46	100%	466.30

"We are seeing a maturation of our very young ecosystem, as rapidly growing tech companies increasingly access later stage venture capital, which often comes from outside the local area" said Moore. And, says Moore, the outlook for the remainder of 2020 is even better. "There are several very large local deals in final term sheet stage, and we expect full year 2020 to be the highest ever for venture capital in Houston; our ecosystem is really thriving."

2020 ON TRACK TO COMPLETE HAT-TRICK OF OVERALL VC GROWTH

Even as COVID-19 related slowdown hampers deal flow, Houston tech startups are on pace to surpass last year's record-setting funding volume with the aid of mega-deals ushering in a new era.

- More late-stage VC deals were financed than were early-stage investments, a strong statement by investors looking to protect their largest investments and portfolio companies most likely to achieve a successful exit.

- This year, 18 later stage deals (of the total 46) accounted for nearly 76% of all capital raised.

- Late-stage VC deal count uncharacteristically outpaced 2019 with the prominence of mega-deals (100M+) as companies take advantage of high capital availability and investors look to protect their largest and best investments. Two mega deals in particular, **Preventice Solutions and HighRadius, raised 137M and 125M respectively.**

- The largest deal YTD is *not* Houston's first crowned unicorn, HighRadius, but rather Preventice Solutions: developer of remote patient monitoring med devices for cardiac arrhythmia patients. The company secured Series B funding from Palo Alto-based Vivo Capital along with support from existing investors, including Merck Global Health Innovation Fund, Boston Scientific, and the Samsung Catalyst Fund.

> *"We've seen many VCs focus on a 'flight to quality'. Specifically, VCs are focused more on making sure their best performing portfolio companies have cash, especially at the later stages, as well as investing in the later rounds of new deals that are clear over-performers during COVID."*
>
> **-** Blair Garrou, Managing Director of Houston-based Mercury Fund

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LATE-STAGE LANDSCAPE

$352.36M | 18 Deals

- Of any venture stage, the late-stage is most vulnerable to market volatility as public comparables are often used to price new rounds and exit potential drives investor and founder behavior.

- Despite this, there has not been a drop in late-stage activity. In fact, almost the opposite has occurred. **So far, late-stage VC deal count is tracking at a multi-year high.** 18 late-stage deals have been completed YTD with nearly $352M invested, well above the figure reported in 2018 YTD report (242M across 8 deals).

- In addition, the financings of two mega-deals at 125M and 137M have paved the path to another year of out-performance. These high figures are the product of several factors. For one, certain sectors have experienced newfound growth in this market, such as **health IT and B2B software** (two of Houston's primary sectors), and companies within those sectors are looking to take advantage of capital availability.

- On the opposite side of the spectrum, many sectors have seen a vast disruption and some startups are needing to raise unplanned rounds of emergency financing to weather the storm.

DEALS YOU NEED TO KNOW:

highradius

SaaS provider for integrated receivables and Houston's first crowned unicorn, **HighRadius**, raised $125M in Q1

liongard

Liongard, a SaaS provider of a unified automation platform to MSPs, raised a series B led by an HXVF portfolio fund, Updata Partners as well as Houston-based Integr8d Capital

ThoughtTrace

ThoughtTrace, raised $10M to advance its AI-driven document Intelligence and contract analytics software from McRock Capital and existing investors, Chevron Technology Ventures.

Quidnet Energy

Bill Gates leads $10M investment in **Quidnet's** long-duration geomechanical pumped storage

Preventice SOLUTIONS

Preventice raises $137M to accelerate salesforce expansion, technology and product innovation and further development of clinical evidence supporting its flagship solution.

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EARLY-STAGE LANDSCAPE

$73.52M | 12 Deals

- Sourcing and due diligence programs have come upon tough times as a lack of startup events and the inability to meet in person with ease have caused VC firms to rethink their approach to deal flow, according to PItchbook. ***Ask about HX's Virtual VC Immersion Days and how we can connect you to 100+ companies currently fundraising in Houston.***
- Around the nation, investors have been reevaluating their portfolios and shoring up their balance sheets for the quarters to come. Houston likewise experienced a 33% contraction in aggregate funding across the early stage scene, as VCs double down on higher-performing portfolio companies and quickly cut their losses on troubled startups, eliminating many of the early-stage deals they might have completed otherwise.
- Largest early-stage investment was in **Solugen ($30.15M)** which uses plant-centered biotechnology to produce environmentally friendly chemicals.

DEALS YOU NEED TO KNOW:

Goodfair

Goodfair, an e-comm platform designed to help reduce the textile waste crisis and make sustainable fashion accessible, raised $3.67M from Waterhouse Ventures.

SecurityGate.io

SecurityGate, a cybersecurity platform for management in OT/ICS operational environments secured funding from Houston Ventures in June.

smartAC.com

SmartAC officially launched out of stealth mode with $10 million in funding for its air conditioning and heating (HVAC) health platform that digitizes the experience of AC ownership,

ANGEL, SEED, AND FIRST FINANCINGS

$38.42M | 16 Deals

- Angel and Seed-stage investments, helping companies begin their venture lifecycle, are not tracking at the growth rate of later-stage activity--experiencing a 30% contraction in number of deals
- Despite this, aggregate deal value has remained consistent with the previous year's $38.9M in total funding.
- As accelerators move more upstream to take advantage of maturing companies in the form of follow-on rounds, there has been a significant downtick in the number of first checks produced by this key segment.
- The high market volatility near the end of Q1 caused fear that angel investors would pull back spending on private due to wealth loss. However, the illiquid nature of angel deals likely helps insulate these allocations from short-term fears.

DEALS YOU NEED TO KNOW:

RETINA

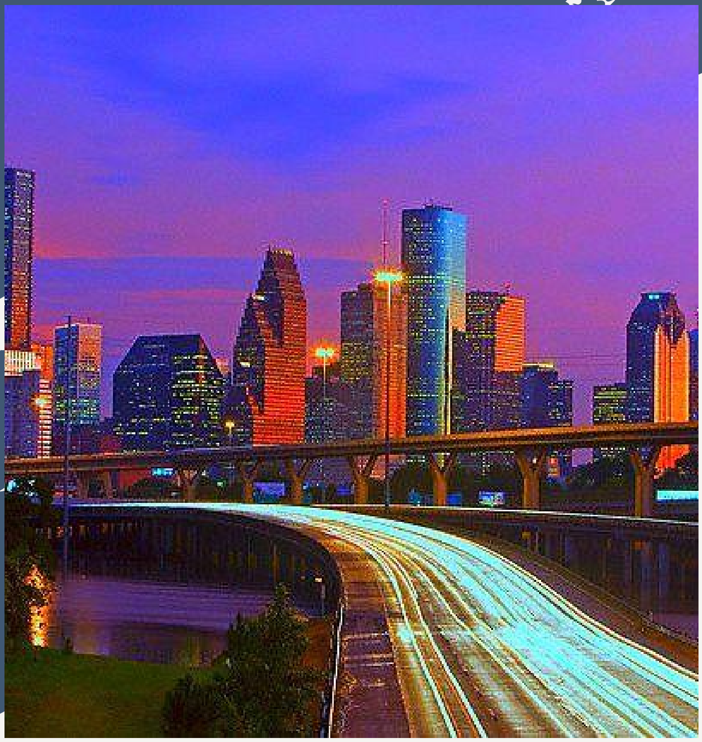
Retina AI, an AI company focused on diagnostics for diseases such as diabetic retinopathy from pictures of the retina, raised 4.1M in an angel round which closed mid-July.

BASE HOLOGRAM

Base Hologram, as the name suggests, is a provider of hologram concert experiences—quite timely. They raised a whopping 15.4M in an outsized angel round this past May.

m1neral

M1neral, the developer of a mineral intelligence platform intended for mineral buyers and mineral owners to conduct transactions efficiently, closed a seed round led by Amnis Ventures and Pheasant Energy this past Jan.



METHODOLOGY

This report includes equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, VC firms, corporate venture firms, corporate investors and institutions, among others.

All financings are of companies headquartered in the Greater Houston Region, with any reference to “ecosystem” defined as the combined statistical area (CSA). We include deals that include partial debt and equity.

All funding information has been sourced from Pitchbook, press-releases, and founder/investor interviews.

Angel & seed: We define financings as angel rounds if there are no PE or VC firms involved in the company to date and we cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when the investors and/or press release state that a round is a seed financing, or it is for less than $500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which we typically aggregate together as early stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Late-stage: Rounds are generally classified as Series C or D or later (which we typically aggregate together as late stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

*Primack, Dan. “Merger-and-Acquisition Activity Falls despite Fears of Pandemic Feeding Frenzy.” Axios, 16 July 2020, www.axios.com/mergers-acquisitions-democrats-coronavirus-b44122b4-18a7-407e-ada1-f5f1b2ccf460.html.

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