Chris Quilty
chris@quiltyanalytics.com
Justin Cadman
justin@quiltyanalytics.com

Sector Spotlight

Recession Impact on Venture Space Ecosystem

Key Takeaways

- **It has been a golden age for "Venture Space" investment.** From 2015-2019, $11 billion has been invested in Venture Space, roughly 10x the annual pace of the preceding five years. There are more than 800 Venture Space companies, though the bulk of dollars have flowed to a small list of companies (roughly half went to **SpaceX** and **OneWeb** alone). Among the many drivers for this order-of-magnitude increase in Space investment, two are foundational and will transcend the economic cycle: (1) "low-cost" space and (2) trends in data. On the other hand, we expect one key driver to reverse course, as investors that had piled into Venture Space for outsized returns in recent years see "for sale" signs in other, less-risky industry sectors. Only a subset of space investors are battle-hardened veterans; most of the investment in the last three years has been from newer investors to the sector, some of whom will lack the stomach to continue.
- **The Venture Space culling has arrived.** The COVID-19-induced recession will accelerate a "culling of the herd" that was likely to happen anyway. Less than half of Venture Space companies are revenue-generating today and very few are profitable, making them highly dependent on raising external capital (or achieving an exit). We examined sector analogs and deal activity during the Great Recession to understand likely investor behavior going forward. We expect VCs to favor current portfolio companies over new investments. "Frontier" investment opportunities like Space will see a bigger hit than other sectors.
- **The Space opportunity is exciting despite its immaturity**. Despite having immaterial revenue impact on the broader Space industry today, the opportunities (and threats) arising from Venture Space are anything but inconsequential to the large, traditional Satellite & Space incumbents. Defense and intelligence customers, for example, are excited about the innovations promised by such players.
- **Cash is king.** While theoretically, the "best" companies should survive, dumb luck will also play a role. Marginal companies that recently raised substantial capital could survive, while good companies may fail.
- **Sector exposure matters.** Given the dependency of Venture Space on external financing, vulnerability is driven not only by company-specific fundamentals but also by sector-driven investor preferences such as market dynamics, capital intensity, and competitive field. The field of >100 small launch companies will be hit, and hard. Conversely, companies in EO analytics should be broadly insulated. We explore a range of sector and company-specific considerations in our report.
- **A silver lining for the future.** The Venture Space ecosystem will emerge stronger, as shakier businesses that "make noise but not hay" cease their operations. Stronger players will reap handsome rewards from a more benign competitive field. And active buyers and investors will see unique opportunities.

Immediate-Term Crisis Period *(Shutdown through perhaps May/June)*	Next 12 Months: Entering the depths of the recession	Longer-Term (12-24 month): The aftermath
High macro uncertainty and difficult logistics impede most fundraising activity.	**Investor support consolidates around the promising players, while a range of more vulnerable companies begin to fail.**	**The strongest players will survive and thrive (or be acquired). The next wave of space investment will begin and will look quite different.**
• Very high macro uncertainty • Deal logistics are very difficult (i.e., no face-to-face meetings) • VCs are first and foremost	• Deal activity resumes, but deal volumes and company valuations fall significantly compared to the pre-crisis period ("down rounds" become quite common)	• The strongest Venture Space players in each category will survive – and capital-intensive categories will narrow to no more than a few-to-a-handful of "real" contenders

This special edition summary is being provided to readers of Quilty Analytics LLC and The Space Foundation research. For more information on receiving a copy of the full analysis and for other valuable research, please contact Info@QuiltyAnalytics.com and Research@TheSpaceFoundation.org, respectively.

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