

Investors are looking to delay startup exits due to COVID-19, MAGNiTT-INSEAD survey reveals

Key Takeaways

- Startups are more concerned than investors about the impact of COVID-19, with later-stage startups being more worried than early-stage startups;
- The majority of investors (**58%**) are looking to delay exits due to COVID-19, as lower valuations affect **42%** of startups in investors' portfolios;
- Startups in EdTech, Healthcare, and ICT sectors saw their monthly revenues increase by more than **25%**, while **27%** of investors changed their industry mandate to focus more on high-growth industries as a result of COVID-19;
- The majority of startups (**77%**) have not yet benefited from any government support policies in response to COVID-19;
- Due to a decrease in revenue, both investors and startups state that their biggest need right now is employee payroll support, followed by bridge funding and rent relief.

29 June, 2020 (Dubai) – Today, [INSEAD](#), the Business School for the World, and [MAGNiTT](#), MENA's most comprehensive startup data platform, released their [Startup and Investor Sentiment report](#), measuring the impact of [COVID-19](#) on the ecosystem. The report provides a deep-dive into the full-scale impact of the pandemic on the MENA startup ecosystem, as well as its response to this unprecedented situation. Moreover, based on these findings, the report provides objective, data-driven recommendations for policy-makers across the region.

While studies and reports have been published on the sentiment of founders in the MENA region, this is the first report to feature investor-specific sentiment as well, in order to provide a comprehensive and holistic overview of the ecosystem.

“COVID-19 has had an unprecedented impact on the startup ecosystem in MENA,” says Vikas Aggarwal, Associate Professor of Entrepreneurship and Family Enterprise at INSEAD. *“This study offers an initial snapshot on how startups and venture capital investors are reacting and adapting to this crisis.”*

Philip Bahoshy, founder and CEO of MAGNiTT, states, *“Our hope is that the report will act as a tool for policy makers to shape initiatives in this time of need for startups. Given the large investment of time, money, and effort to build the ecosystem, acting now will have the necessary impact for many years to come.”*

The report highlights startups' and investors' sentiment across a variety of key areas, including concerns about fundraising, operations, government support, and more. Key findings of the June survey show the following:

Outlook: Not yet out of the woods

- **Concern:** Startups are more concerned than investors about the impact of COVID-19. Interestingly, later-stage startups show greater concern than early-stage startups, with growth stage startups being most worried about the impact.
- **Outlook:** With respect to the economic outlook in MENA, 24% of startups expect a depression. In contrast, the majority of investors (75%) forecast a recession.
- **Timelines:** Overall, both founders and investors anticipate a lasting impact of the crisis, with almost a quarter of founders expecting the crisis not to be over before Fall 2021.

Fundraising: When dry powder dries up

- **Biggest Challenges:** Against this relatively negative outlook, founders face numerous fundraising challenges, ranging from unresponsive investors (37%) to the cancellation of term sheets (8%).
- **Different Industry Responses:** A breakdown by sector, however, shows that Fintech, EdTech and ICT founders, who have largely benefitted from the fast-tracked digitalisation of business and traction brought on by the pandemic, are accelerating fundraising plans, while startups in the more traditional retail, transportation, and entertainment industries, whose operations have been hit harder by lockdowns across the region, are reducing valuations.
- **Change in Investor Mandate:** Looking ahead, 27% of investors are changing their mandate towards positively impacted technology-driven industries, while VC appetite for new ventures or geographies has slowed.
- **Delays in Exits:** The majority of investors (58%) are looking to delay exits due to COVID-19, as lower valuations affect 42% of investors' portfolios.

Impact: Cash-strapped founders reinvent businesses, products, and services

- **Challenges due to COVID-19:** Reflecting on the lacklustre fundraising environment and the negative economic situation, founders are facing revenue decreases (60%) and a subsequent lack of cash (47%). They also struggle to stick to the projected business plans (42%) due to disrupted operations (72%).
- **Changes in Revenues:** Over 72% of tech founders report a monthly revenue drop of 25% and beyond due to COVID-19, indicating the significant impact of the pandemic on startup revenues. However, 8% of startups have seen their revenues increase by 25% or more, while 4% have more than doubled their sales – mainly startups active in the e-commerce, ICT and healthcare space.
- **Investors on Portfolio Startups:** Investors indicate that managing the workforce with salary cuts (78%), hiring freezes (64%), and layoffs (39%) were their portfolio ventures' most common responses to the lack of cash. In the meantime, cash-strapped founders report to have proactively adjusted their business models (45%) and products and services (40%) to better cater to customers in the new environment, reflecting the need of tech ventures to adjust their value proposition and adapt to the shifts in demand and supply due to the recession.

“Many MENA-based technology startups have shown resilience by adjusting their business model and product offerings, pivoting to scalable online solutions that have seen greater traction during COVID-19. Regional investment firms have – in many cases – looked to support their portfolio startups by focusing on them first, rather than on new investments. This has resulted in many later-stage investments, which has fuelled the increase in total funding in the region in H1 2020.” reflects Sietse van de Kerkhof, Venture Capital Data & Research Executive at MAGNiTT.

Government support

- **Benefited Startups:** The majority of tech founders (77%) have not benefited from any government support policies, while those who indicated using government-related policies are based in the UAE, Saudi Arabia, Lebanon and Bahrain.
- **Talent Retention Support:** In response to a decrease in revenue, both investors and tech founders state that their biggest need right now is employee payroll support.
- **Cash is King:** Liquidity remains key for venture-backed companies. Bridge funding and rent relief were most sought after in order to tackle cash flow and liquidity issues. Loans and loan guarantees, on the other hand, are less needed according to investors and startups, as few startups have taken out loans in the first place.

The report is available to download for free [here](#).

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About MAGNiTT

[MAGNiTT](#), MENA's most comprehensive startup data platform, is built on four core products:

- 1) **Community**, an online portal connecting startups with investors
- 2) **Data**, the MENA region's database for venture investments and funding trends
- 3) **News**, keeping subscribers up to date with everything new & noteworthy across the startup ecosystem
- 4) **Research**, venture reports which are the reference for leading publications such as the Financial Times, Bloomberg, and TechCrunch.

MAGNiTT is on a mission to empower, inform, and connect startup ecosystems in emerging markets.

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