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The Rudolf and
Valeria Maag INSEAD
Centre for Entrepreneurship



The Global Private
Equity Initiative

Global Start-up and VC Sentiment Survey

How has the COVID-19 crisis
impacted founders and
investors?

March 2021





SURVEY OVERVIEW

In January 2021, INSEAD conducted a startup and VC sentiment survey with the goal of providing reference points for stakeholders in the entrepreneurial ecosystem on how to help startups navigate the COVID-19 crisis.

The survey also aimed to offer insights for governments to define policies that can help tech ventures not only tackle short-term challenges such as liquidity shortages and a scarcity of VC funding, but also to foster the ability of startups to capture new business opportunities.

Start-ups' Challenges

30%

30% of founders are preoccupied by travel restrictions and remote working due to government lockdown policies

14%

14% of start-ups have changed their business model, and 15% have adjusted their product/service, reflecting the need for tech ventures to adjust their value proposition and adapt to shifts in demand and supply

28%

Cash flow challenges are the most common, with a drop in revenue preoccupying 28% of founders and 58% projecting a revenue decline in 2021

50%

50% of start-ups have seen their operations affected by COVID-19. 18% have paused activity and 3% have closed operations. 29% have seen a substantial impact on their business

Fundraising

44%

44% of founders neither plan to raise funds nor believe that fundraising is impacted by COVID-19; 27% have slowed the fundraising process

25%

25% of founders have decided to delay fundraising plans; 7% of start-ups have reduced valuations

32%

32% of investors advise founders to make no changes to fundraising plans; 30% advise entrepreneurs to be more aggressive in their negotiations with VC funds

58%

58% of start-ups in investors' portfolios have seen valuations increase by 10% or more. One in two founders have seen valuations increase by more than 20%

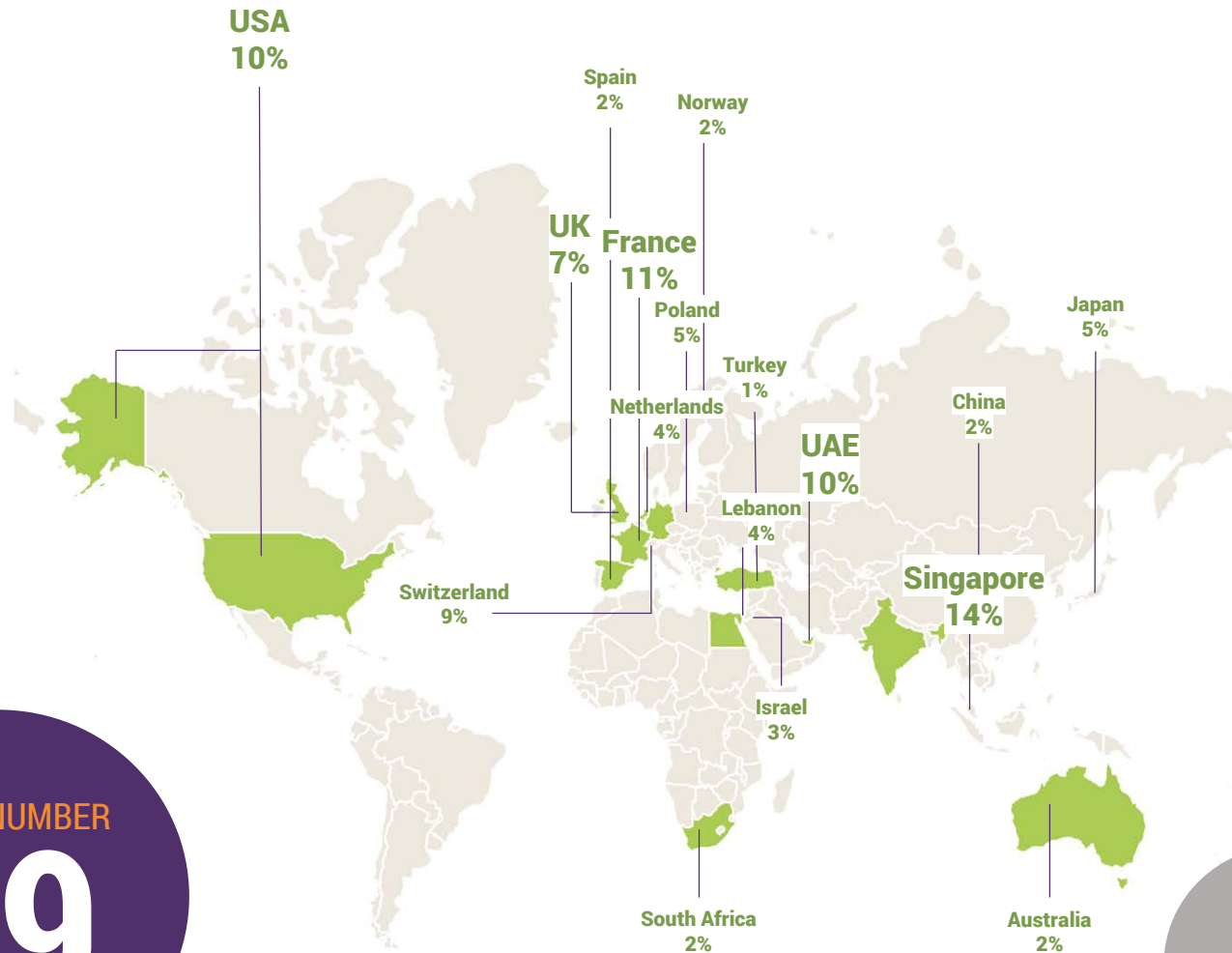
41%

41% of investors plan to delay exits due to COVID-19



SURVEY PARTICIPANTS

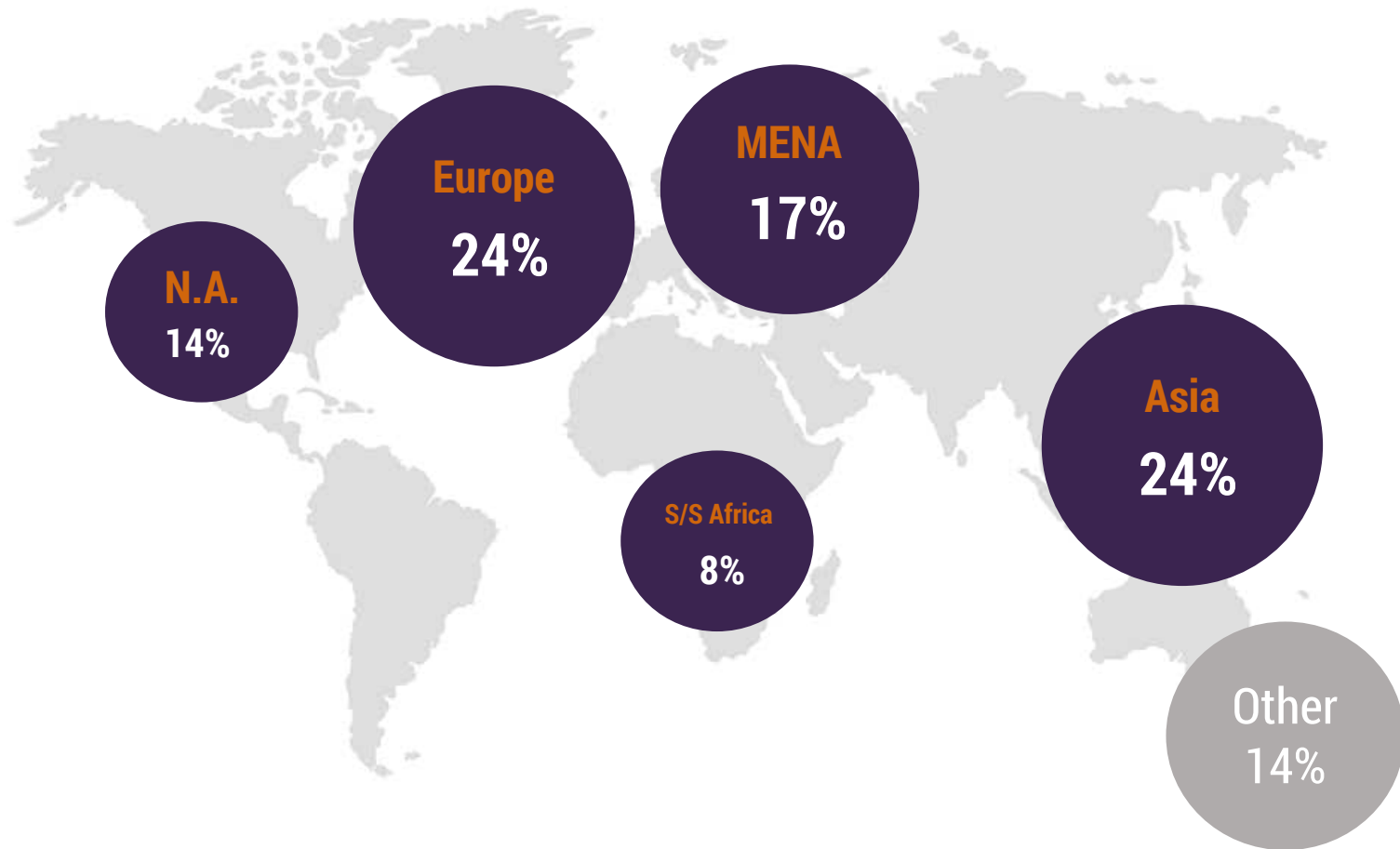
Start-up HQ – Where are they located?



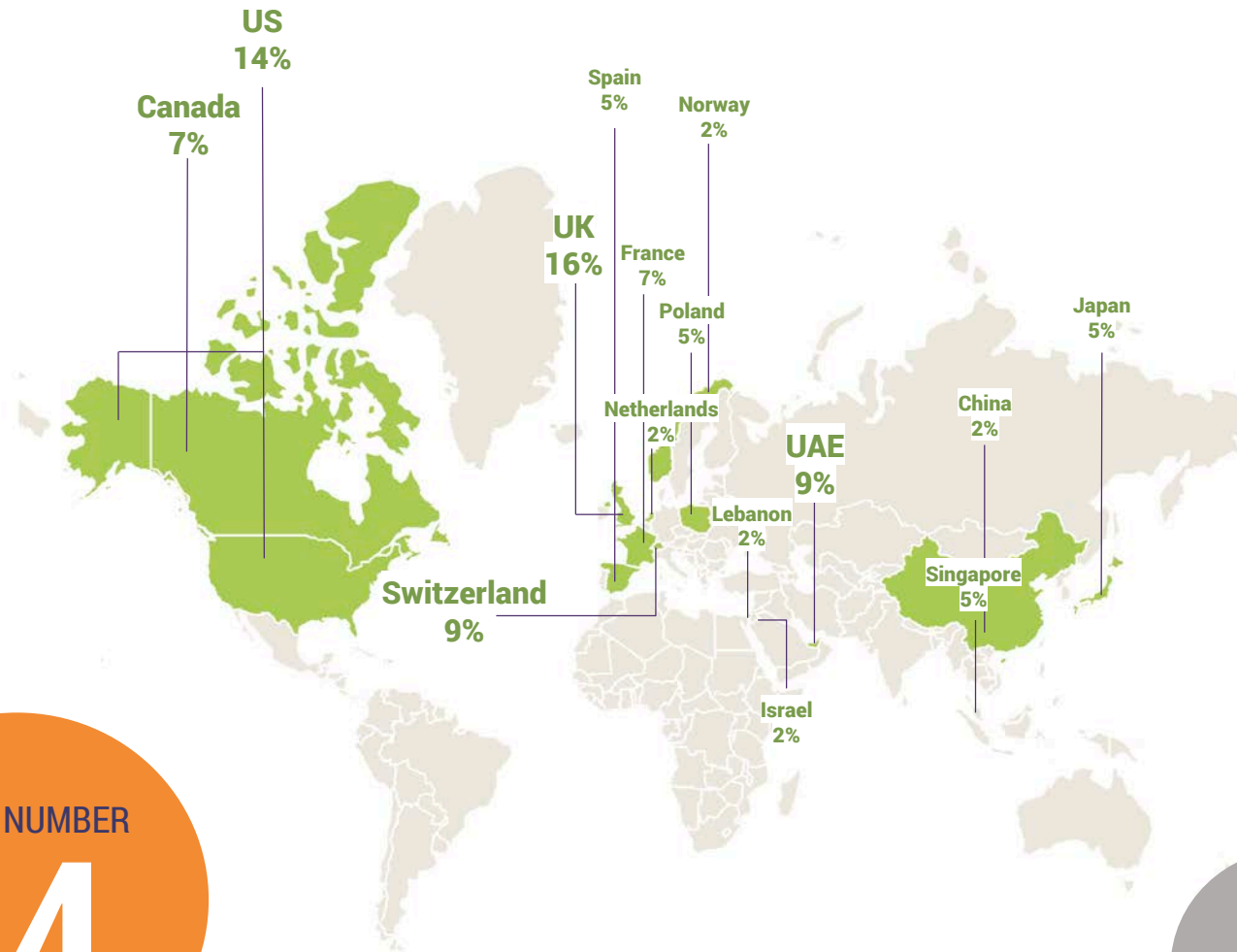
TOTAL NUMBER
99

Other
20%

Start-up markets – Where are they operating?



Investor HQ – Where are they located?



TOTAL NUMBER

44

Other
9%

Start-ups – What sector?



ICT **17%**

FINANCE & INSURANCE **12%**

PROFESSIONAL SERVICES **8%**

HEALTHCARE **8%**

RETAIL TRADE **6%**

HOSPITALITY **6%**

ENT. & RECREATION **5%**

REAL ESTATE **5%**

EDUCATION **4%**

TRANSPORTATION **3%**

LOCAL SERVICES **3%**

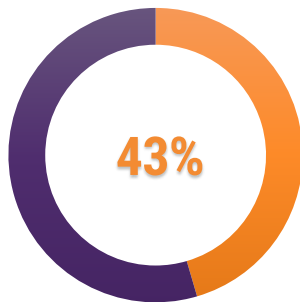
MEDIA **3%**

Other
19%

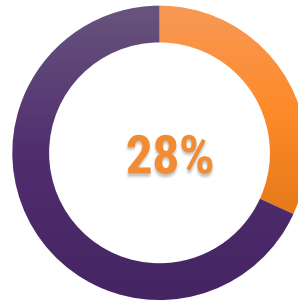
Start-ups – What business?



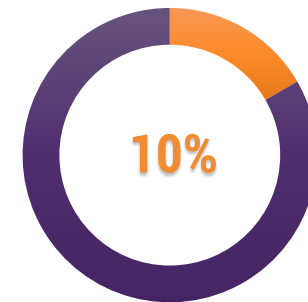
B2B (Small)



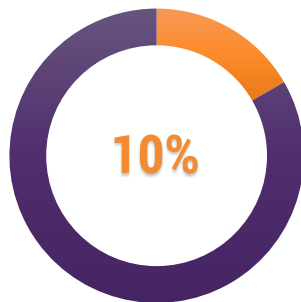
B2C



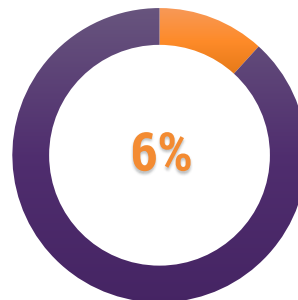
B2B (Large)



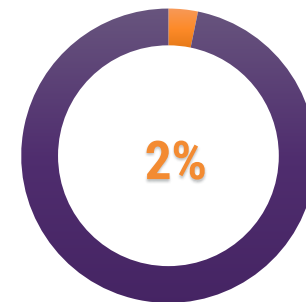
Marketplace



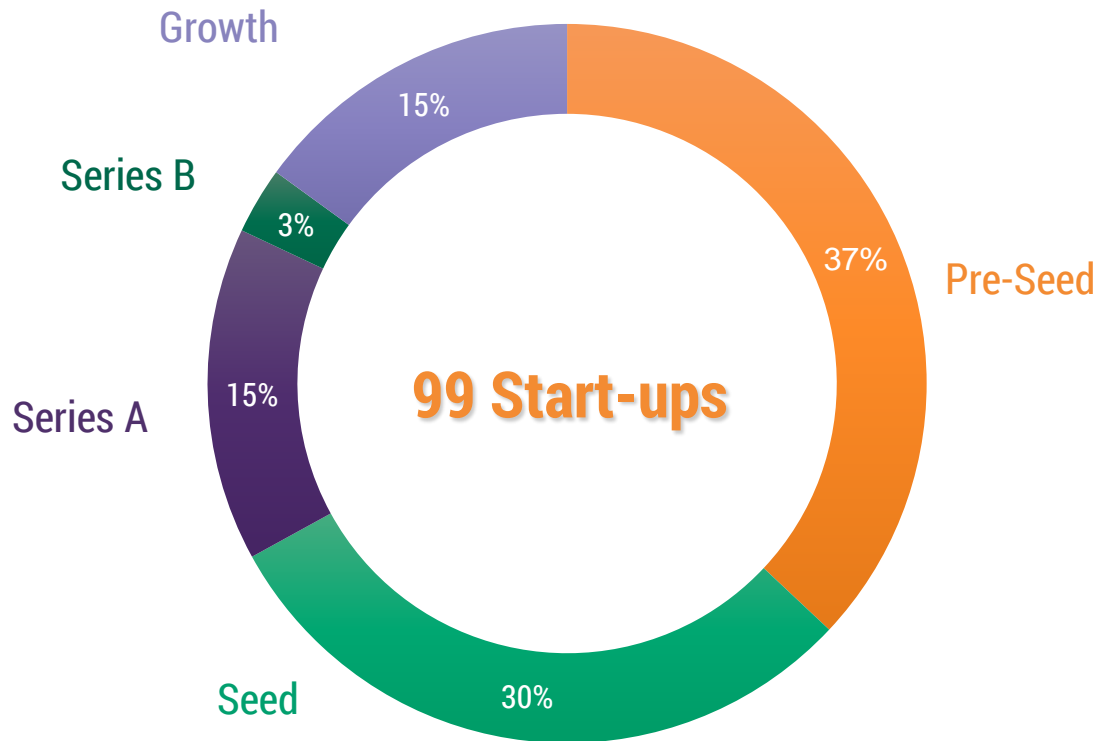
Other



B2G



Start-ups – What funding stage?





MACRO- ECONOMIC SENTIMENT

Macro-economic sentiment – Key insights

17%

17% of founders and investors have big concerns about the economic situation. Less than 20% of respondents are worried about the current situation

2.8

Start-ups scored higher (2.8/5) on the sentiment index than investors (2.4)

77%

77% of founders believe the economy will head into a recession or a depression in 2021. 70% of investors share that view.

50%

50% of investors believe the pandemic will end in Q1 2022

29%

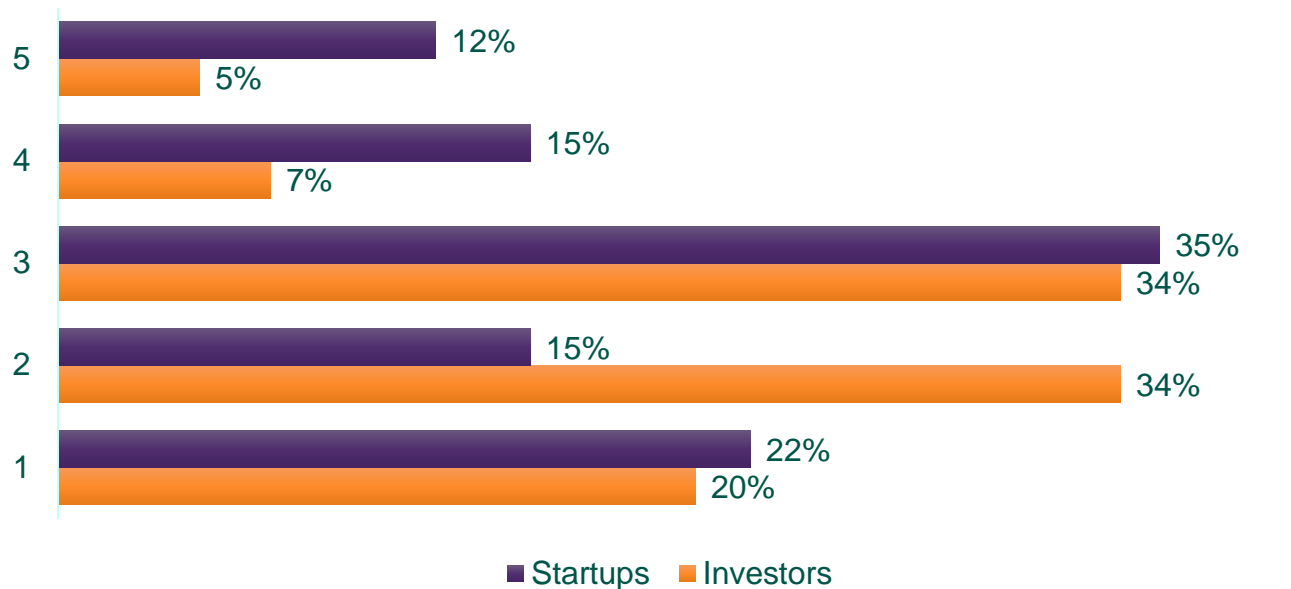
29% of founders predict the COVID-19 crisis will be over no earlier than Q2 2022



Investors and founders are moderately worried about the economic impact of COVID-19



Level of Concern About the Economic Situation



Startup Sentiment Index



Investor Sentiment Index

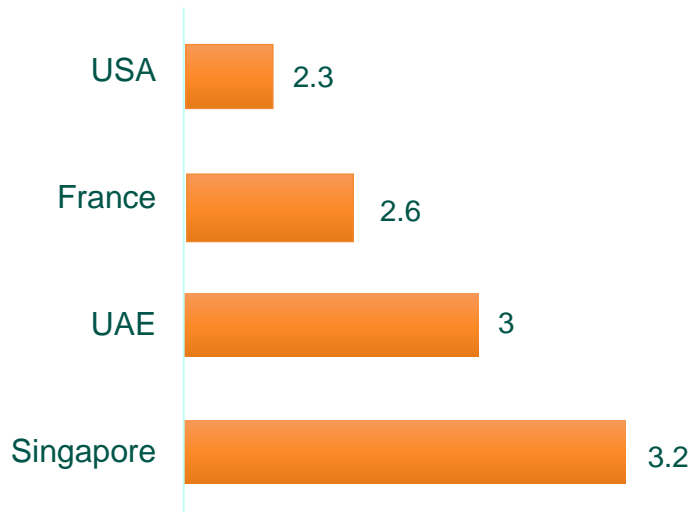
(1= Not worried at all to 5= Very worried)

Most concerned are early-stage ventures in Singapore and the UAE

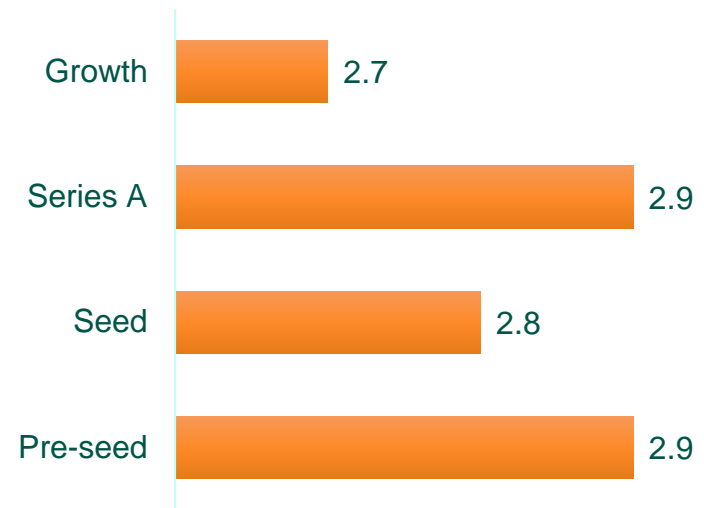


- Start-ups in established innovation hubs in the US and in Europe worry least, partially thanks to the 'safety nets' available to them
- Founders of growth-stage ventures are less worried about the effects of COVID-19

Sentiment Index by Country



Sentiment Index by Stage



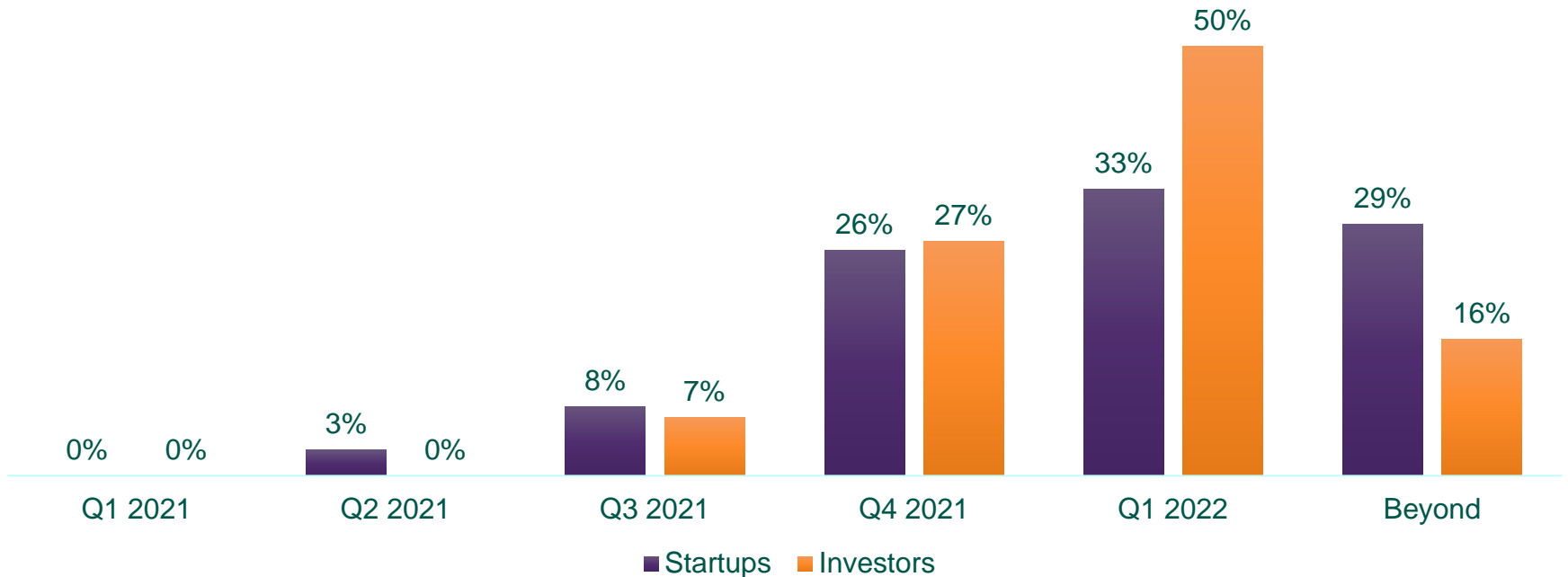
(1= Not worried at all to 5= Very worried)

Startups and investors expect the crisis to end between Q4 2021 and Q2 2022



- 62% of founders expect the crisis to end no earlier than 2022, 77% of investors between Q4 2021-Q1 2022

Time Horizon Until the End of the Crisis

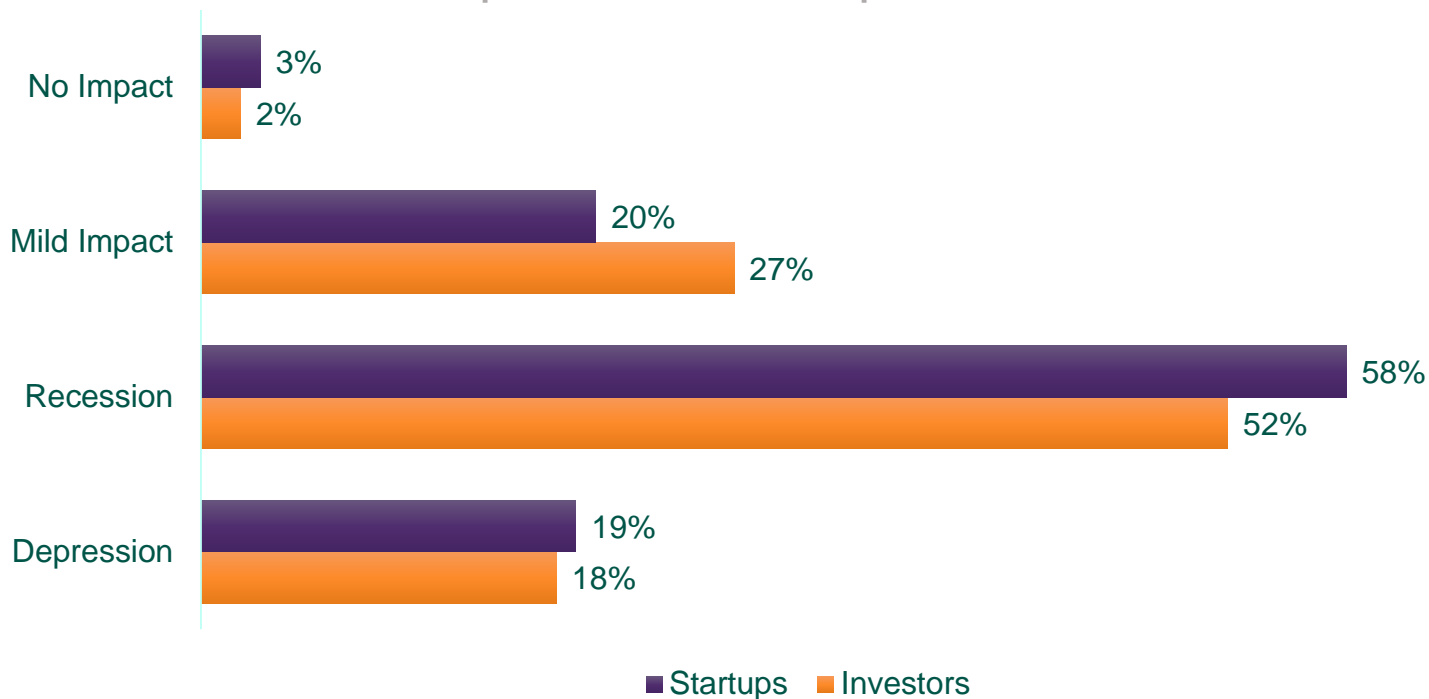


Startups and investors expect the economy to enter into recession or depression after COVID-19



- 77% of founders and 70% of investors believe the economy will head into recession or depression in 2021
- Only 20% of founders expect the pandemic to have a mild impact on the economy

Expected Economic Impact of COVID-19

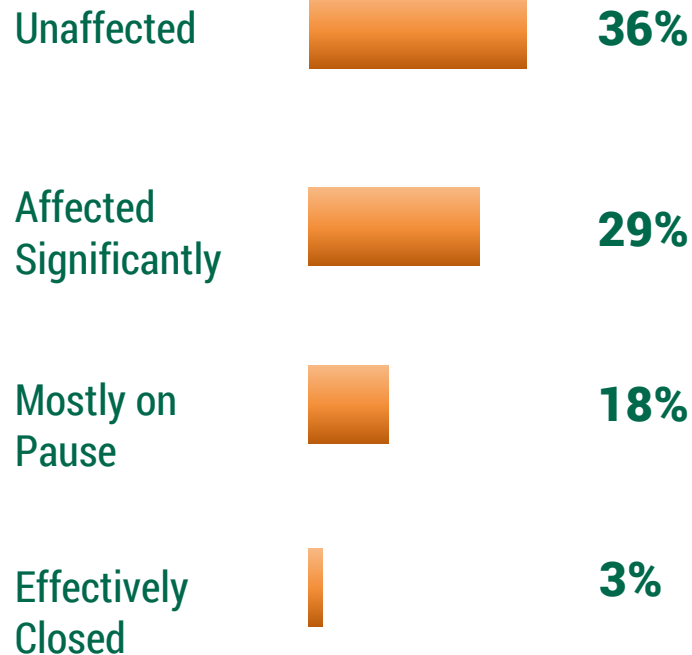




STARTUP CHALLENGES

One in two startups report that their operations have been affected by COVID-19

Impact on Startup Operations, %



Other
13%

“
The pandemic created a forced reset for many companies, when they had to reflect on the fundamentals of their business, go back to basics, and assess whether they needed to pivot their strategy in order to achieve true product market fit in times of disruption. Ultimately, great stories were born out of chaos.

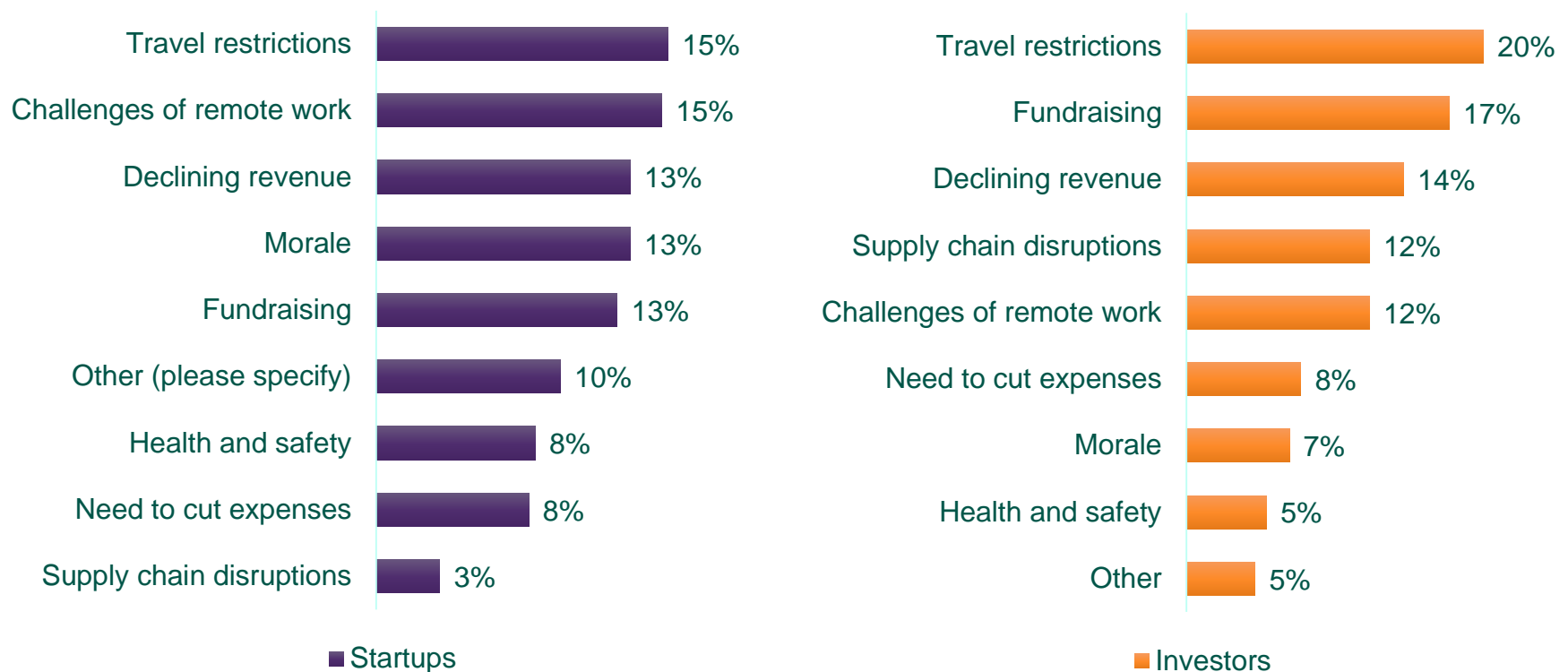
”
Sonia Weymuller
VentureSouq,
Founding Partner

Work-related issues are most challenging for technology ventures



- Travel restrictions (15%), remote work challenges (15%) and declining revenues (13%) are the top 3 challenges for start-ups
- Investors indicate that travel restrictions (20%), fundraising (17%) and declining revenues (14%) are the most challenging factors for their portfolio companies

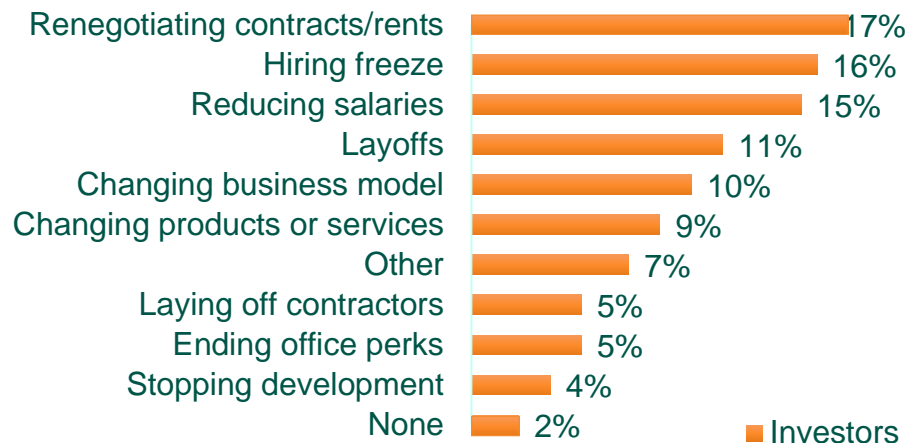
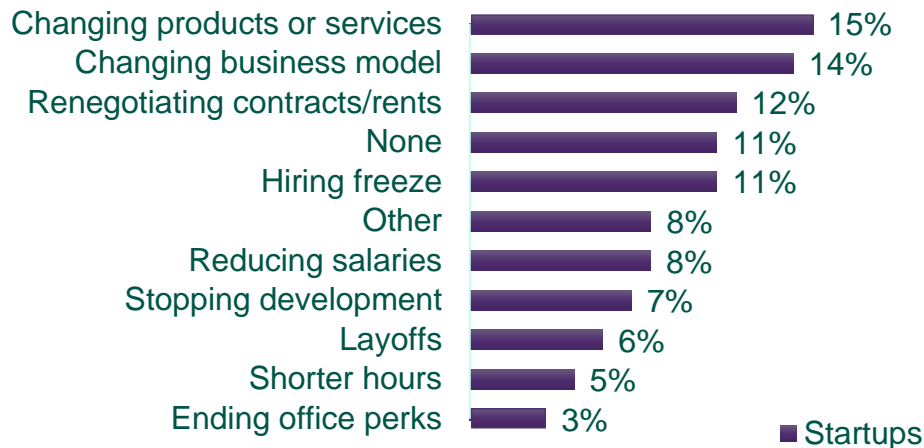
Top Challenges Brought by COVID-19



While working remotely, startups had to adapt their value propositions and business models



Top Anti-Crisis Measures Taken by Startups



- **Change of strategy:**

Changing products and services (15%) as well as changing business models (14%) were the most common responses, reflecting the need for tech ventures to adjust their value proposition and adapt to shifts in demand and supply

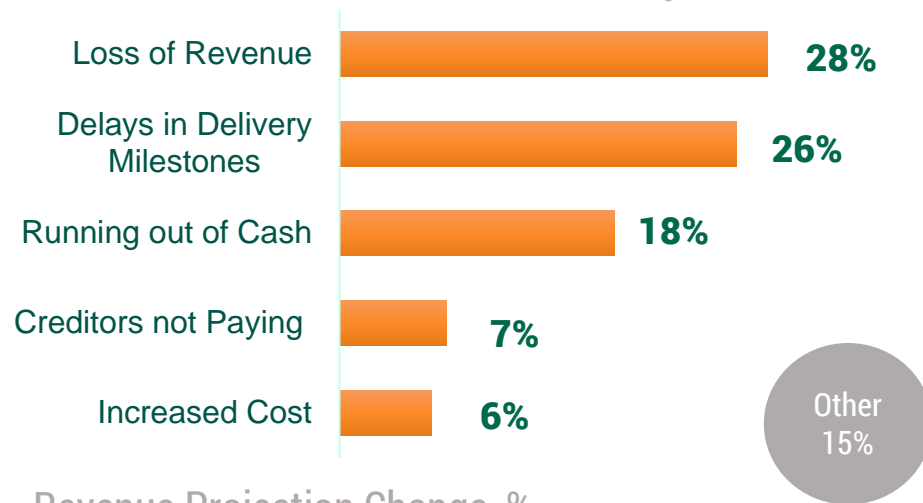
- **Cashflow challenges:**

Founders reduced operating costs by renegotiating contracts and hiring freezes, rather than by salary cuts or layoffs

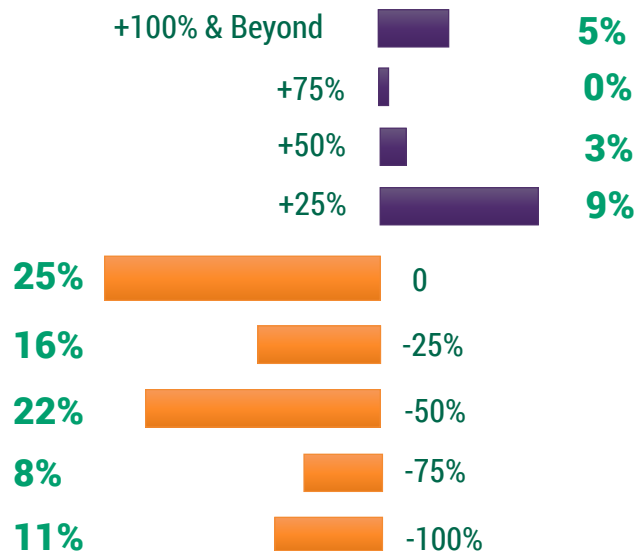
Revenue decline and delays in development milestones were common themes



Effects on Financial Situation, Caused by COVID-19



Revenue Projection Change, %



- Cash flow challenges:**

Revenue decline preoccupies founders the most, with 26% unable to stick to projected business plans due to disrupted operations, and 18% experience a lack of cash

- Revenue projections:**

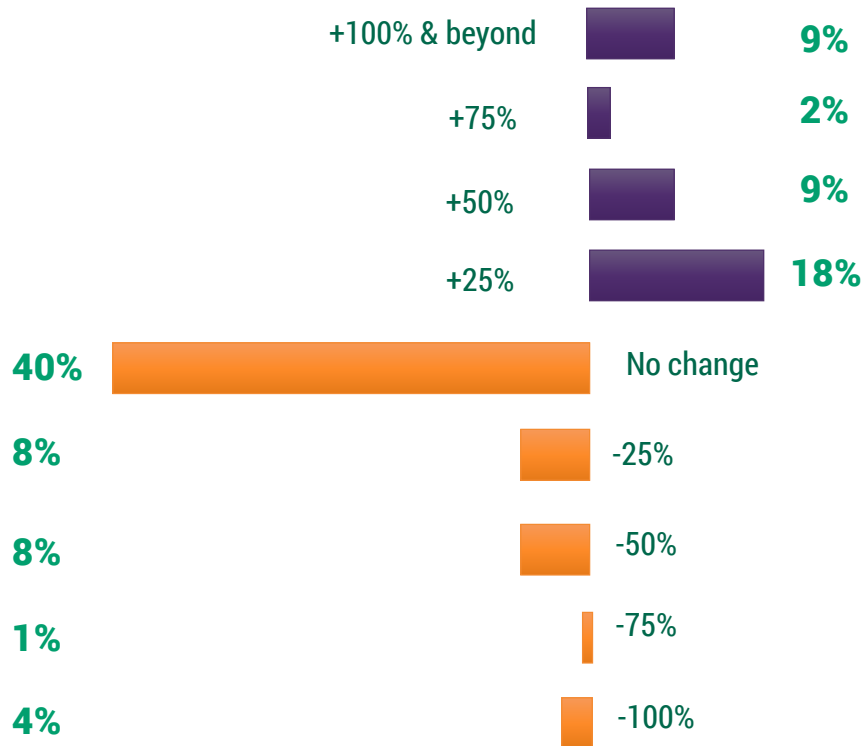
57% project a revenue drop

17% project a revenue increase

Preserving talent remains a priority for startups, with no massive layoffs projected



Projection of Increase or Decrease in Staff, %



- **Managing talent:**
Despite the crisis, 40% have no plans to lay off staff
- **Startups are hiring:**
Overall, 38% of founders will recruit more, and 9% plan to double their workforce

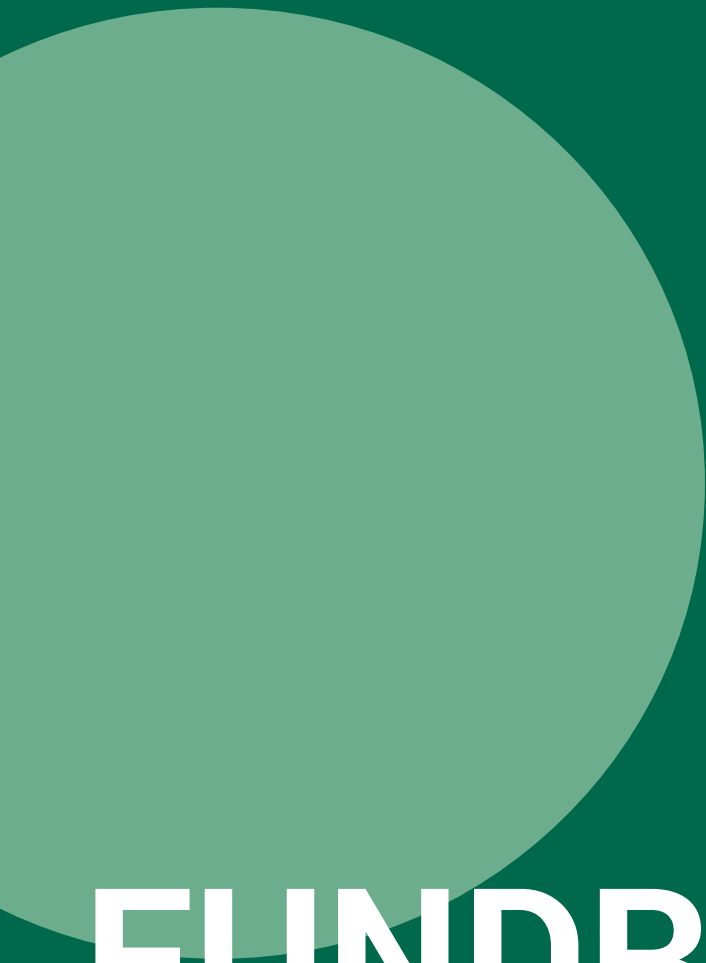
Both investors and founders indicate the importance of agility during the COVID-19 pandemic

As a SaaS platform for social listening, we did not have to worry about the revenue as it was recurring. On the other side, over the course of three months we managed to eliminate nearly \$150K in costs without laying off employees by simply cutting non-essential expenses. This helped us navigate the crisis and sail with full steam through the storm of COVID-19. We ended up growing business in 2020.

Dirk Stevens, CCO,
Crowd Analyzer

Before we used to ask founders “How quickly can you scale up?”. During COVID we realized that we were asking the wrong question: you also need to understand how quickly can you scale down. The second question was how quickly it was possible to pivot the business model to adjust to the new demand. Last year was about the survival of the fittest, and the most agile companies performed better.

Sonia Weymuller
VentureSouq,
Founding Partner



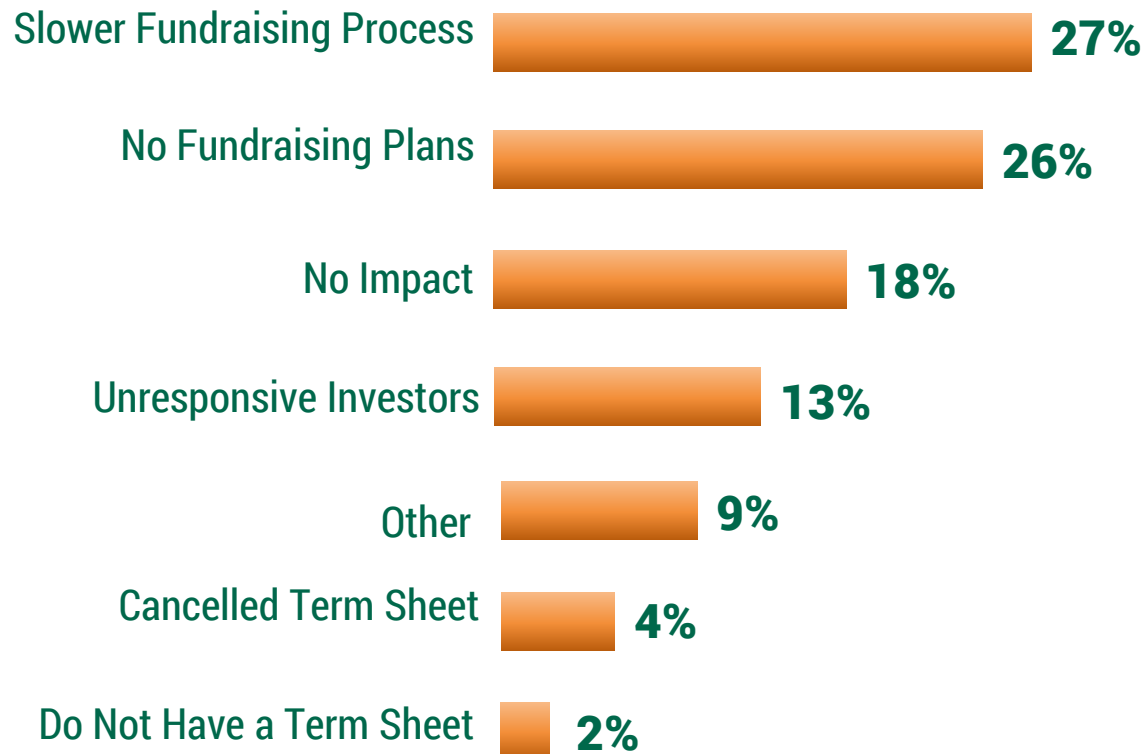
FUNDRAISING

Founders believe the pandemic slowed fundraising



- 13% of founders faced unresponsive investors and 4% saw term sheets cancelled
- 18% of founders have not encountered any impact on fundraising

Direct Impact of COVID-19 on Startups' Fundraising Plans for 2021

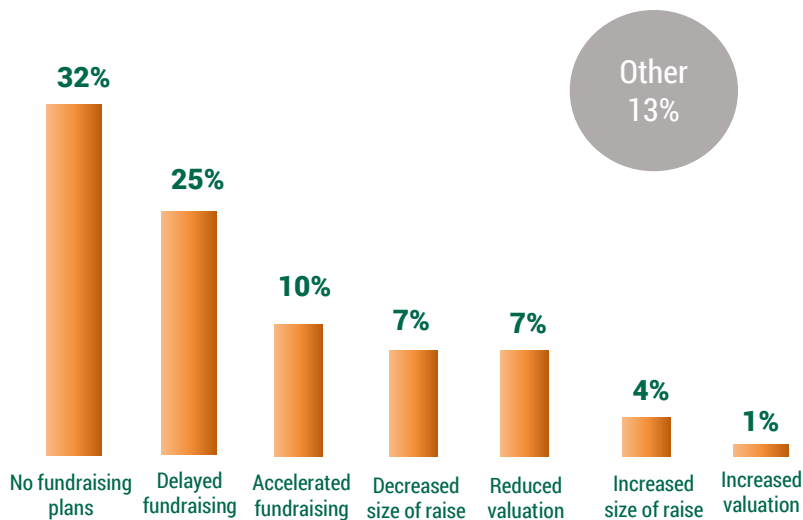


A quarter of founders plan to delay fundraising plans until the end of the crisis



- Only 10% of founders accelerated fundraising in 2020, seeing an opportunity to scale their operations with additional VC funding

Startups' Response to Fundraising Challenges



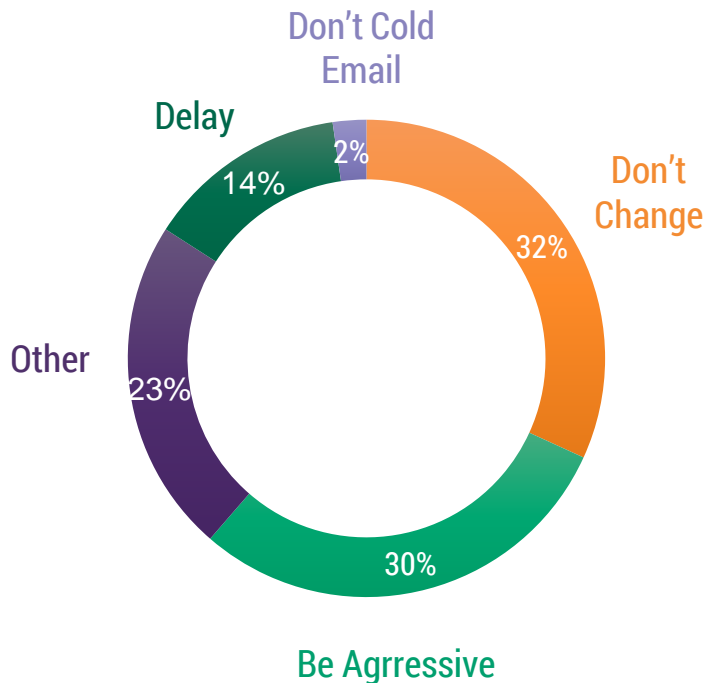
From an early-stage perspective, it feels like entrepreneurs are having a harder time raising funds than in previous years, especially seed and series A rounds. The biggest challenge is that they are just not getting the phone call back, without a clear explanation of why from the investors' side. Investors themselves have had trouble raising money from LPs. Some have even turned part of their funds into crowdfunding as an alternative solution.

Industry Consultant

Investors believe fundraising plans should not be delayed

- Only 14% advise founders to delay fundraising
- 30% suggest taking a more aggressive approach

Fundraising Outreach: Investors' Advice to Founders



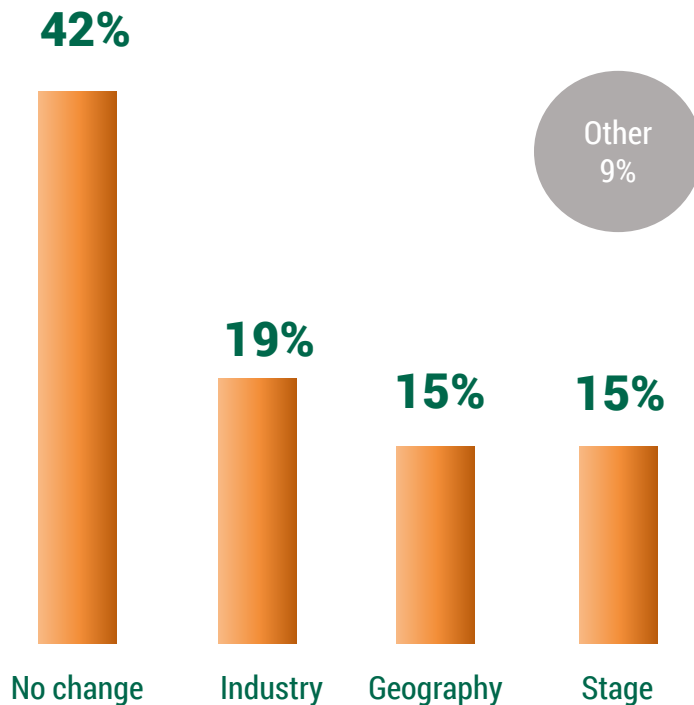
There was a considerable contraction of VC capital available in the market, and many follow-up investments in current portfolios to support the companies in 2020. Now we are back to normality: people are used to this new normal, people are used to working remotely. In addition, we see some advantages for VC, as due diligence doesn't require travelling as much as before.

Walid Mansour,
MEVP, Managing Partner

While investors still plan to deploy capital, some have shifted toward new industries and geographies

- 19% indicate shifts toward different industries
- 15% look at startups in new geographies

Change in Investment Mandate



In terms of valuations, we have not seen any significant impact due to COVID-19. What actually was remarkable is that with remote online working international investors became more interested to look outside of their usual geographies. If before investors from London, Boston or the Valley would not look at a UAE startup, now they put allocations for ventures abroad. Online board meetings helped a lot for this.

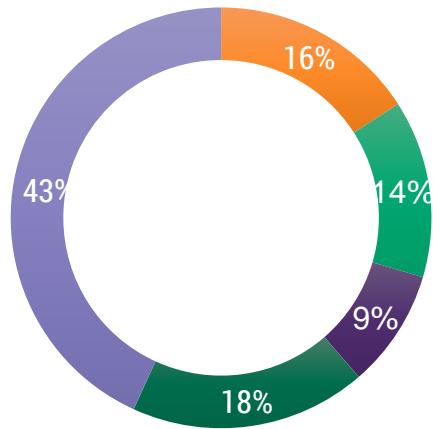
Entrepreneur

An appetite for new investments is seen across the majority of investors, but exits are delayed



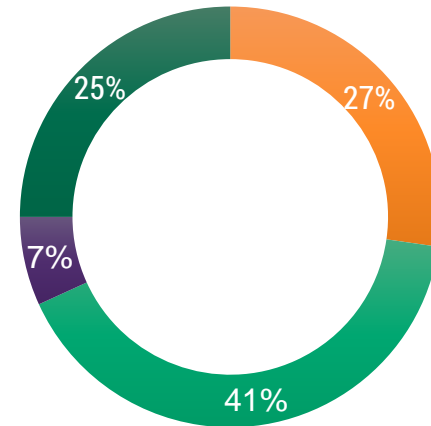
- 61% allocated more than \$5M in funds to new companies
- 41% delayed exits due to COVID-19. Over 27% stuck to their exit plans, 7% advanced them

Capital Allocation to New Investments in 2020



<\$1M \$1M - \$3M \$3M - \$5M \$5M - \$10M \$10M +

Effect of COVID-19 on Investors' Exit Strategy



No change Delay exit Advance exist Other

Changes in investment sentiment in response to COVID-19

When COVID hit in March, there was a pause in the early-stage side of investment due to an increased risk averseness. In May, investors started adjusting to the new normal and started investing again. Indeed, later-stage deals witnessed an increase in funding as success stories started to appear and investors were willing to accelerate their scaling, especially in specific sectors like FinTech.

Sonia Weymuller
VentureSouq,
Founding Partner

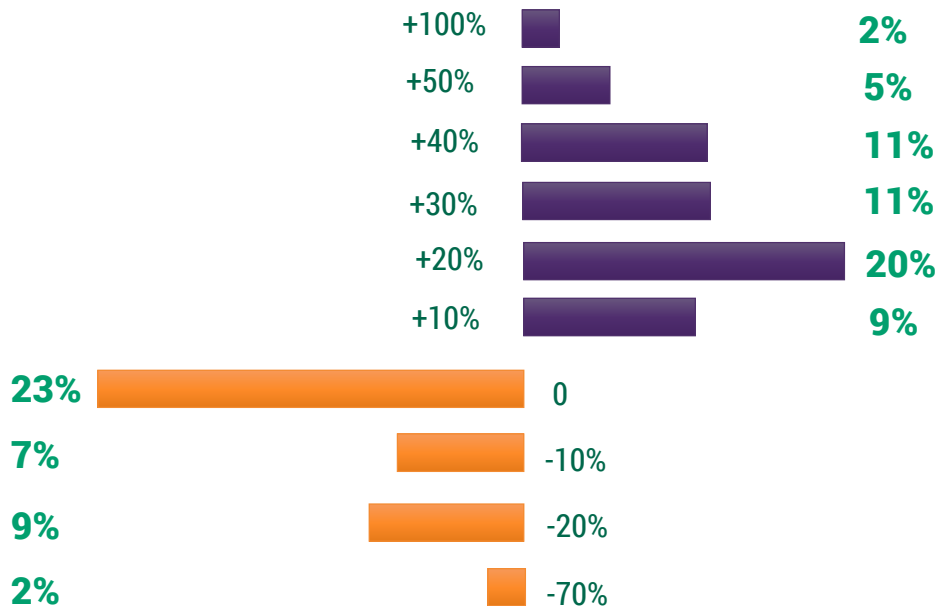
We didn't drastically change the direction of our investment strategy, as it is still a story of digitization. We slightly refocused towards sectors that benefitted from COVID, like FinTech and mobile payments.

Walid Mansour
MEVP, Managing Partner

Valuations seem to be little impacted by the crisis

- 23% of investors do not expect change in valuations
- 18% saw valuations decrease by 10% or more
- 50% saw valuations increase by over 20%

Level of Valuation Change of Investors' Portfolio Companies



Valuations were not impacted that much by COVID. These are a function of the availability of capital and supply of capital flows. If a company attracts investors' interest, it would not see its valuation decrease.

VC Investor



GOVERNMENT SUPPORT

Short-term requirements of founders and investors

18%

Tax exemptions are the most popular measure required by founders as a short-term measure to assist ventures

27%

With lower revenues, 27% of start-ups indicate a need for support related to cash management: 18% for payroll and 9% for rent relief

39%

As for longer term measures, founders emphasize the necessity of funding support: 18% for bridge funding, 10% for loans, 7% for venture debt, and 4% for loan guarantees

27%

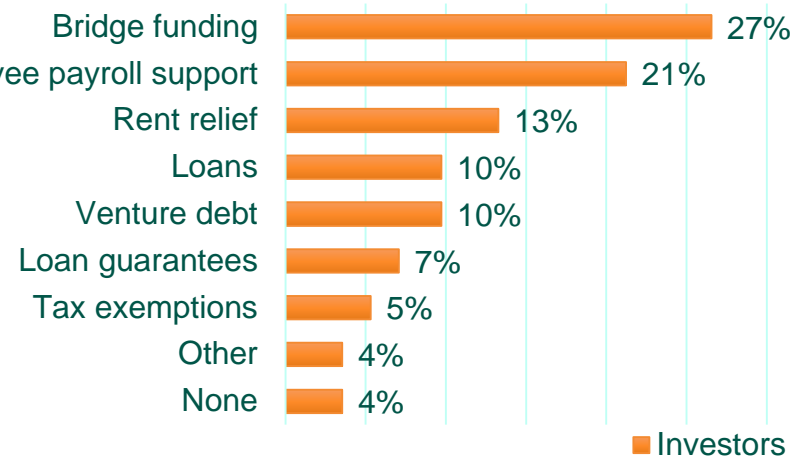
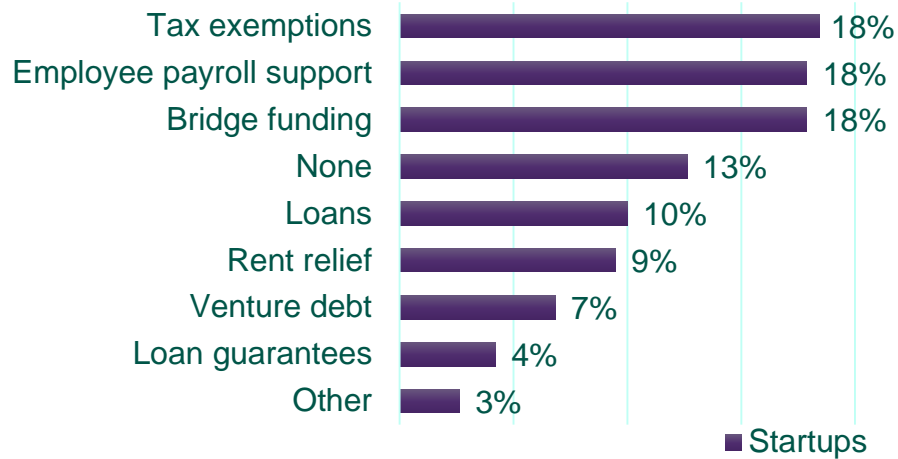
From the investor's perspective, the most effective measure would be assisting tech ventures with bridge funding (27%)

The most common requests relate to cash management



- In response to a decrease in revenue, both investors and founders expect governments to assist with bridge funding and employee payroll support, while startups note tax exemptions as the most important measure
- Other areas involve loans and loan guarantees, as well as rent relief and venture debt, in order to tackle cash flow and liquidity issues

Support Measures Needed To Help Startups Deal With COVID-19



Expected Government Support

A few things would be beneficial for startups: reducing their baseline operating costs, debt forgiveness, reducing office space costs, and discounting duties for import & export.

Kia Davis
Independent Advisor

As a part of Tecom, we managed to terminate the rent of the office space without any impact on the license. From the visas perspective, however, we would be keen to have government support that would allow sponsoring visas independently from the rented space. In addition, as trademark license renewal is a significant cost, it would be beneficial to have exemptions put in place. From the financial perspective, it would also be beneficial to have a specific bank dedicated to startups to facilitate lending to SME.

Dirk Stevens,
CCO, Crowd Analyzer



THANK YOU

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