

COVID-19

How the Pandemic is Affecting the Startup Ecosystem

Valuation and Deal Terms



Fundraising Trends in the Light of COVID-19

HOW COVID-19 IS AFFECTING THE STARTUP ECOSYSTEM

Based on discussions with founders, fund managers, business angels and other players in the Danish eco-system we see the following fundraising trends for startup companies:

- Investors are inclined to **slow down their investment activities** in order to assess the uncertainties caused by COVID-19.
- Investors are inclined to **raise the bar for evaluating startup companies** and are becoming **more selective** in their approach to new investments.
- Investors are inclined to take more time to get to know and assess the business, which lead to **longer investment processes**.
- Investors are inclined to have **less risk appetite** now than before the crisis.
- Investors are inclined to focus on existing portfolio and invest in **own best performing companies** rather than making new investments.
- We expect investors to **re-define their evaluation criteria** for investing in startups.
- We expect investors to **re-define their portfolio company composition strategy** in order to match the risks created by COVID-19.
- We expect an increased investor focus on the **team's ability to act** in this crisis situation.

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Based on discussions with founders, fund managers, business angels and other players in the Danish eco-system we see the following fundraising trends for startup companies:

- Some sectors are (and will, at least for a while, continue to be) heavily affected by COVID-19, and we expect that it will become **increasingly difficult for startups in such sectors to raise financing rounds.**
- We expect a significant **decrease in equity financing rounds and bridge financing rounds from external investors** within Q2 and possibly also Q3.
- We expect an **increase in internal bridge** financing rounds, as many startups will need to postpone planned equity financing rounds and will need funding from existing shareholders until such new equity financing round can be completed.
- **It is currently not possible to assess, if pre-seed and seed companies will experience more difficulties in raising capital than more mature companies in series A- and B-financing rounds:**

On the one hand, pre-seed and seed companies often have an unproven track record, team and business case (and therefore investments in such companies are generally attached with a greater degree of risk compared to investments in more mature companies). On the other hand, pre-seed and seed companies often do not rely on sales revenue and customers, and therefore the business case of such companies may be less affected by the crisis than more mature companies.

Fundraising Trends

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Valuation and deal trends in the light of COVID-19

From discussions with founders, fund managers, business angels and other players in the Danish eco-system we see a clear tendency towards **lower valuations** based on the following factors:

- **Decrease in growth rates** and decrease in expectations to future performances lead to lower valuation.
- **Lack of competition** because of slow-down in investment activities from both of Danish funds and foreign funds lead to lower valuations. Even the best companies will receive fewer term sheets than before the crisis.
- Most startups have planned their runway so as to complete a new financing round at a specific point in time. A miss out in **runway planning or timing of a new financing** round may lead to lower valuations.
- General **uncertainty and unpredictability** in the market will lead to lower valuation.

For the same reasons, we **expect to see more investor friendly term sheets** over the next quarters compared to what we have been used to see over the past quarters.

Deal statistics in the light of COVID-19

Denmark

- Only one DK venture investment in March 2020.
- We expect to see a few (but not many) venture investments in Danish startups in April 2020.

US

- US Q1 2020: 106 deals of USD 100+ (equalling 2018 and 2019 figures).
- US March 2020: 25 deals of USD 100+. Significant decrease since mid-March.

China

- Decrease of +50 percent in VC deals in January and February.
- 66 venture investments in the week ended 28 March (a big step back towards normal level of investments).

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