

COVID-19

How the Pandemic is Affecting the Startup Ecosystem

Support Packages

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Support Packages – Denmark Compared to Other Countries

HOW COVID-19 IS AFFECTING THE STARTUP ECOSYSTEM

Germany

- The German government has launched a support package worth €2 billion (about \$2.2 billion) for startups affected by the coronavirus. The state will work through venture capital firms that will distribute the funds to the struggling businesses. It will also enable the umbrella funds KfW Capital and the European Investment Fund to use public capital to replace money withdrawn by other investment funds.

US

- Venture capital-backed companies will be eligible for \$350 billion in loans. Under the Paycheck Protection Program included in the stimulus package, companies with less than 500 employees will qualify for forgivable loans of up to \$10 million if they keep their employees on the payroll.

Denmark

- No specific startup support package
- Startups governed by the general supporting packages:
 - Temporary compensation for wages
 - Temporary compensation for fixed expenses
 - Government backed guarantee
 - Extension of deadline for reporting and payment of taxes
 - *Compensation to self-employed and freelancers*
 - *Compensation for cancellation of events*

Our Opinion

- The current support packages are not designed for startups. Growth funding is not covered. Most startups have planned its runway carefully to last until next financing rounds.
- We hope and expect that packages designated for startups will be adopted soon.

Support Packages – Temporary Compensation for Wages

HOW COVID-19 IS AFFECTING THE STARTUP ECOSYSTEM

Compensation scheme

- For salaried employees (“funktionærer”), the compensation amounts to 75% of the salary and for hourly-paid employees 90%, in both events with a cap of DKK 30,000 per month. The compensation scheme may be combined with a wage reduction (provided accepted by the employee in advance).

Eligible companies

- Companies that would otherwise be compelled to terminate a minimum of 30% of its employees *or* more than 50 employees in total.

Company requirements

- The company must waive its potential right to send employees home without pay.
- The company must not terminate its employees for financial reasons in the compensation period.
- The employee must not work in the compensation period (there is, however, a possibility of creating a rotation system amongst the employees).

Employee requirements

- Employees covered by the scheme are required to use up to five days of holiday and/or compensatory leave during the compensation period

Compensation period

- 9 March – 8 June 2020

Items of particular relevance to startups:

Warrants

In general, warrants will continue to vest during the compensation period if warrantholder is sent home.

Vesting of founder shares

It depends on the specific clause in the SHA, but in general founder shares will continue to vest during the compensation period if founders are sent home.

Good leaver/bad leaver scenarios

It depends on the specific clause in the SHA, but in general we do not expect any differences in the application of key clauses due to the COVID-19.

Our Opinion

→ The fact that employees cannot work/create value during the compensation period makes the package less attractive for startups.

→ It is difficult for a startup to commit not to terminate for financial reasons in the compensation period, e.g. if a financing round fails to materialize.

Support Packages – Temporary Compensation for Fixed Expenses

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Compensation scheme

- Turnover decrease by 40–60 percent: Compensation of 25 percent of fixed expenses
- Turnover decrease by 60–80 percent: Compensation of 50 percent of fixed expenses
- Turnover decrease by above 80 percent: Compensation of 80 percent of fixed expenses
- Limitations: Cap of DKK 60m. Cannot get compensation for costs that could reasonably have been avoided

Eligible companies

- Reduction in turnover of at least 40 percent due to COVID-19
- Fixed expenses shall equal at least DKK 25,000 over the compensation period

Fixed expenses

- Includes e.g. rent, leasing costs, software license and insurance fees, depreciation of fixed assets. The fixed costs shall be calculated in accordance with the principles of latest annual report

Reference/comparison period

- 1 April – 30 June 2019
- However, if no turnover in that period it may be 1 December 2019 – 29 February 2020

- If no turnover in neither of the periods, the reference period is the period since formation and until 9 March 2020
- If the designated reference period due to special circumstances does not provide an accurate picture, the company may apply for using a different period.

Compensation period

- 9 March – 8 June 2020

Our Opinion

- Subscription based services may be covered by the support package. This could have an importance for subscription based startups, as this may be fixed expenses for the customer (provided it could not reasonably have been avoided).
- Comparison with reference periods makes no sense for growth companies.
- Compensation for fixed expenses will not help the startups with their main problem: Funding of their development and growth strategy. Hence, it is not something that really matters to most startups.

Support Packages – Government Backed Guarantees for SMEs

HOW COVID-19 IS AFFECTING THE STARTUP ECOSYSTEM

Guarantee scheme

- Vækstfonden may provide a guarantee for new loans or credit lines provided to the startup by a financing institute
- The guarantee covers 70 percent of the loss of the financial institute
- The guarantee has a duration of up to 7 years which are linearly decreased on a yearly basis

Eligible companies

- SMEs (companies with below 250 employees and a yearly turnover of below EUR 50m or an aggregate yearly balance of at maximum EUR 43m)
- Realised *loss of turnover* of at minimum 30 percent in a 14 day period within the period 1 March – 30 September 2020. Loss of turnover is calculated based on the same period of 2019; however, for growth companies the financial institute may, at their discretion, use budgeted turnover.
- Company may not be *in crisis* as of 31 December 2019. For companies established within the previous 3 years, loss of more than half of the subscribed capital is exempted from the *crisis* definition.

Costs

- Establishment fee of DKK 2,500. Yearly fee of 1 percent of the guarantee amount.

Loans and loan terms

- It is entirely up to the financing institute whether it provides a loan to a company. The company will, in addition to other documentation required by the bank, need to provide documentation that it was healthy prior to the COVID-19 crisis.
- The loan terms are entirely up to the financing institute; however, no security for the loan may be established.

Our Opinion

- The startups rely on the financial institutions to provide loans on reasonable terms.
- The criteria for obtaining loans from financial institutions seem to be unchanged (and hence, it is difficult to obtain loans).
- For many startups, time is key. Vækstfonden has indicated a process time of 48 hours, but the process with the financial institute may take much longer.

Other Initiatives

HOW COVID-19 IS AFFECTING THE STARTUP ECOSYSTEM

Other Danish initiatives

Postponement of taxes

- The deadline payment of AM-contribution and A-tax has temporarily been extended by 4 months (For SMEs starting with the payment with ordinary deadline on 11 May 2020) in order improve affected companies' liquidity. VAT payment deadlines for Q1 or H1 have been joined with payment deadlines for Q2 or H2, respectively.

Vacation

- Companies may require employees to hold vacation and extra-days without notice, because of COVID-19 related issues.

Reimbursement of sickness benefits

- Temporary right to reimbursement of sickness benefits/receive sickness benefits from the very first day of the relevant sickness absence period, provided that the employee's/self-employed person's absence is caused by COVID-19 and that the general conditions for receiving sickness benefits/reimbursement are met.

Annual reports

- The deadline for filing annual reports has been extended for three months for all companies. The rule takes precedence over the articles of association of the Company.

Other consequences

Virtual general meetings

- The central management may decide to hold a virtual general meeting without the possibility of physical presence without adopting provisions to this effect in the articles of association. When holding virtual general meetings, it is important that the participants have the possibility of following the general meeting online and have the possibility to vote electronically.

Force majeure

- Due to COVID-19, many companies are experiencing problems in the form of late deliveries, projects that are put on hold and other issues that make it difficult to comply with contractual obligations. The question is if companies may be relieved from contractual obligations with reference to *force majeure*. As of now, there is no answer to that question, but the general anticipation is that COVID-19 does not constitute force majeure now. However, as the situation keeps developing, this may change.

Valuation guidelines

- Most venture funds follow IPEV's valuation guidelines. IPEV has revised their valuation guidelines in the light of COVID-19. While fair value continues to provide investors with the most consistent and comparable information, the special valuation guidance highlights, among others, that it may no longer be appropriate for recent transaction prices, especially those from before the expansion of the pandemic, to receive significant, if any, weight in determining fair value.

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