

COVID-19

How the Pandemic is Affecting the Startup Eco-system

Startup Support Package

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Support Package for Startups

HOW COVID-19 IS AFFECTING THE START-UP ECOSYSTEM

The new support package for start-ups contains three initiatives (see details on the following pages):

- 1** At least 1:3 matching loan from Vækstfonden for early stage startups.
- 2** 1:3 matching loan from Vækstfonden for venture companies.
- 3** DKK 1.2 billion funding to Vækstfonden designated for investments in the ecosystem through direct investments in startups and investments in VC funds.

Our Opinion

- The new support package is much needed, as the existing support packages were not designed for start-ups. In our view, there are a lot of positives for the ecosystem in the proposed support package.
- Since the support package is currently only based on a political agreement, there are a number of uncertainties as to the exact terms. We will keep you posted when we know more.

Support Package for Startups – Early Stage

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Eligible companies

- Early stage start-ups.
- It remains to be seen how “early stage” will be defined. In the political agreement, focus is on companies with no or limited turnover, so we expect there will be a turnover threshold for being eligible for this support package.

Matching loan

- Vækstfonden will provide loans of at least 1:3 of the aggregate financing received by the start-up.
- Even though own financing is not mentioned specifically regarding early stage companies, we expect the package to require own financing either through equity or loan, as the case is for the support package covering venture companies (see next page).
- It remains to be seen which loan terms will apply to the loans provided by Vækstfonden.

Limitations

- The support package covers financing rounds until end of 2020.
- Vækstfonden has been provided with a DKK 1.5 billion frame for this support package.

Our Opinion

- While there are a lot of positives in this initiative, it is key that the loan to the startup is provided on reasonable terms and that Vækstfonden is able to set up a smooth and fast process for providing the loans.
- We will keep you posted regarding the details of this support package, including which companies will be covered by the support package and which loan terms will be applied.

Support Package for Startups – Venture Companies

HOW COVID-19 IS AFFECTING THE START-UP ECOSYSTEM

Eligible companies

- Venture companies.
- It remains to be seen how “venture companies” will be defined. In the political agreement, focus is on companies with a need of doing large investments compared to its turnover and therefore has a need for risk capital to fund its growth.
- We expect there will be a turnover threshold for being eligible for this support package.

Matching loan

- Vækstfonden will provide loans of at 1:3 of the aggregate financing from private investors received by the venture company.
- The funding from private investors may be in the form of equity or loan. We would expect convertible loans and SAFE notes to be comprised as well.
- The funding requirement will be met with funding from both existing and new shareholders.

Limitations

- The support package covers financing rounds until end of 2020.
- Vækstfonden has been provided with a DKK 700 million frame for this support package.

Our Opinion

- It is positive that not only equity financing but also loan financing will meet the requirements for own financing. It is positive that not only financing from new investors but also from existing investors will meet the requirements for own financing.
- It is key that the loan to the venture company is provided on reasonable terms and that Vækstfonden is able to setup a smooth and fast process.
- We will keep you posted regarding the details of this support package, including which companies will be covered by the support package and which loan terms will apply.

Support Package for Investments in Startups

HOW COVID-19 IS AFFECTING THE START-UP ECOSYSTEM

Background: It will become increasingly difficult for start-ups to raise capital from private investors:

- 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** so as to match the risks created by COVID-19.

Support package

- Acknowledging that it will be increasingly difficult for start-ups to raise capital from private investors, Vækstfonden receives DKK 1.2 billion for investments in the ecosystem.
- The support package covers both direct investments in start-ups (both early stage and more mature companies) and investments in VC funds.
- The support package is aimed at equity investments.

Our Opinion

- The new support package is much needed, as the existing support packages are not designed for venture companies.
- We will keep you posted regarding the details of this support package.

Support Package for Investments in Startups

HOW COVID-19 IS AFFECTING THE START-UP 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:

- 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.

We expect to see more investor friendly terms:

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. This is not only in relation to financial terms, such as **valuation, preferential rights, anti-dilution** and similar mechanisms, but also in respect of other terms such as **governance structure, protective provisions** and **key man clauses.**

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