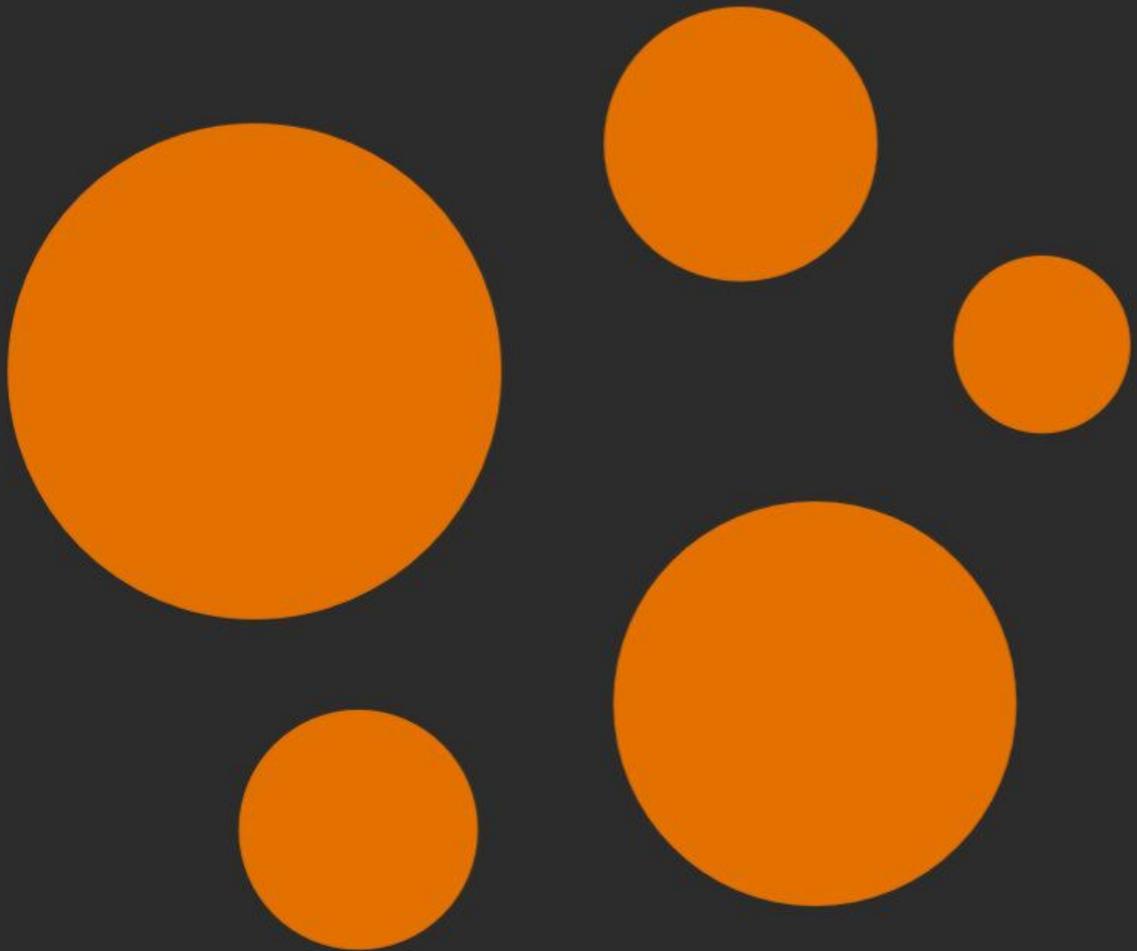


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The Dutch Tech Ecosystem and COVID-19 Impact Report



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Techleap.nl is a non-profit organisation, funded by the Ministry of Economic Affairs and Climate Policy, helping to quantify and accelerate the tech ecosystem of the Netherlands. Empowering Dutch leaders in tech to scale with programs and initiatives for improving access to technology, market, capital and talent. Special Envoy for Techleap.nl is Constantijn van Oranje.

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Executive Summary

This survey and its analysis aim to identify the impact of COVID-19 on the Dutch startup ecosystem. With over 445 startup participants (8% of the total startup population) and a material number of investors providing their input we are showing a representative overview.

The impact of COVID-19 on startups is clear, 50% of startups have lost significant revenue and are expected to run out of money in the coming 3 months. Most founders indicate the need for short term (1-3 months) bridge funding with the amount needed most ranging from €100,000 to €400,000.

While support measures are being developed by many countries, including The Netherlands, currently the support measures do not provide the required funding and support:

1. There is a need for short term bridge funding, helping companies with working capital to survive the atypical market situation that was caused by the COVID-19 outbreak

2. VC investments are slowing down and 27% of startups need structural funding. There's a need for new measures that incentivise new capital to be invested. We see this confirmation of slowdown in funding when analysing our Venture Capital (VC) investor survey where an overwhelming majority of VC's indicated they feel less confidence in the market with 65% delaying investments.

As Techleap.nl we hope this report provides you adequate insight into current startup challenges and possible ways forward. We are grateful for all parties participating in such a short time frame and will continue analysing and contributing to solutions. **Thank you to our partners, the ROMs, government, VCs and startups for helping make this report possible.**

1.

Founder's perspectives and sentiment

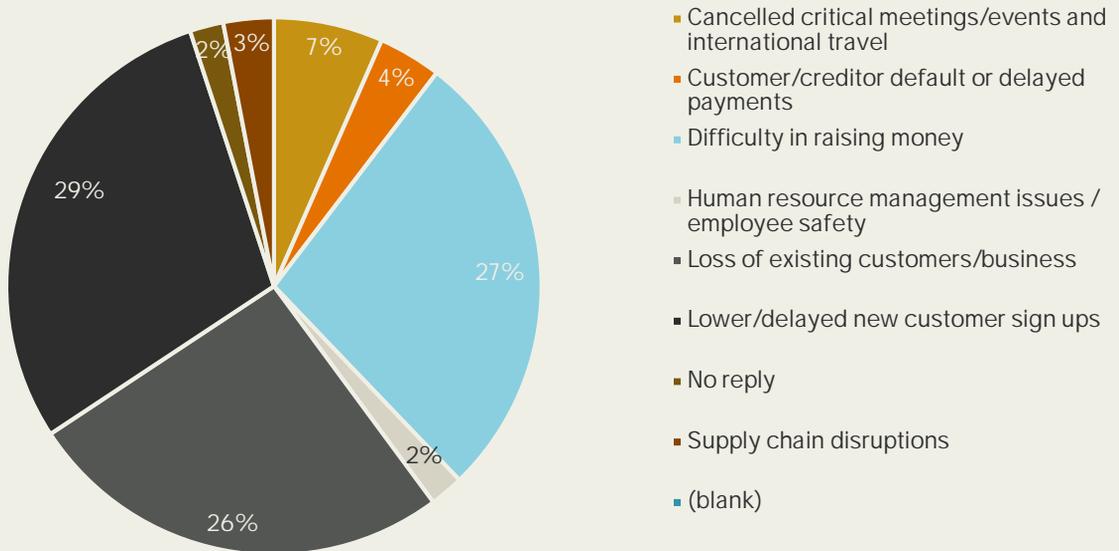


1.1 The Impact of COVID-19 on Dutch Startups

The key objective of our survey amongst startups and Venture Capital funds (VC) has been to identify how COVID-19 is impacting startups and how sizable the impact is. In total 445 respondents have taken the time to share in depth details on their current situation and struggles. Giving us an adequate overview of the situation (2).

We have looked at both the business area of the startup that has been impacted as well as the precautions they have taken to limit the damage. The impacted areas are quite consistent and 84% of the COVID-19 impact is covered in three key areas: delay in customer sign ups (30%), difficulty in raising money (27%) and the loss of existing customers or business (27%).

What concerns you most about the current Corona Virus situation?



These three concerns makeup over 80% of respondents' biggest challenges and evolve around the difficulty in creating new revenue or sustaining the growth they need for future financing.

What actions have you taken to cut costs already?



On the side of cost control we observe that 85% of companies are at this stage actively cutting cost. This cost cutting is impacting their operational activities as well as causing a reduction in general investments and marketing.

The survey shows that COVID-19 has already slowed down milestone delivery for 16% of companies which is linked to cost cutting, reduction in capacity and logistical issues. This general slow down provides serious risk for startups that in general are geared (and budgeted) for growth and at the same time required to plan for regaining growth after COVID-19.

In addition a local Dutch slow down needs to be addressed in order to capture market opportunities timely and ensure their position in the market with other startups and corporates is not disproportionately weakened.

1.2 How many companies are impacted, and which types of companies are impacted

When trying to understand the urgency and scale of the challenges we analyzed the runway (amount of time that the company can continue business before running out of money) of the startups. This shows a deterioration of the runway and buffers available.

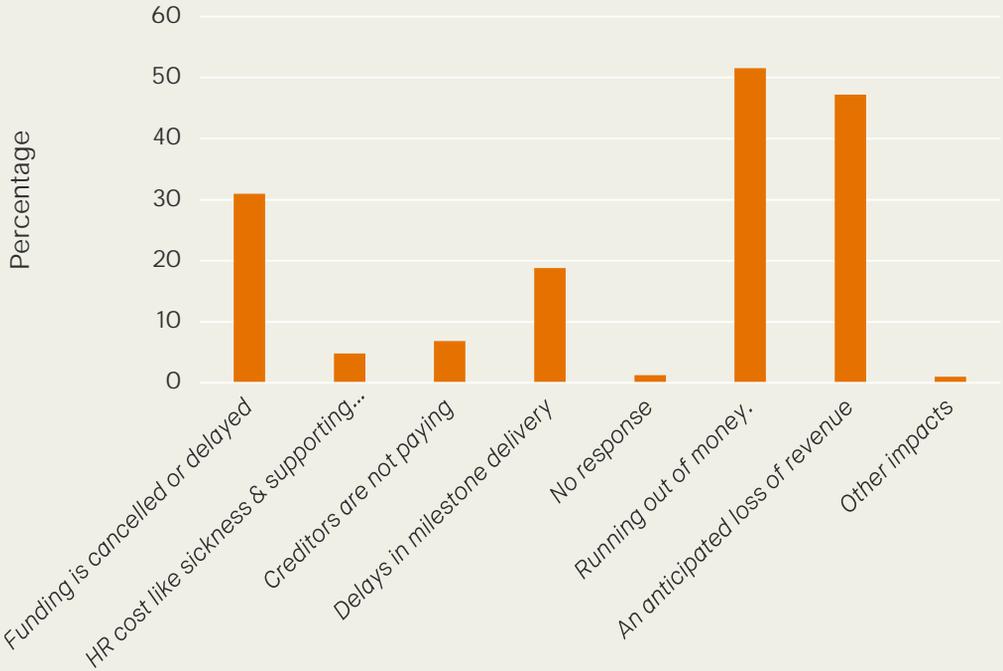
Some 42% of startups (3) anticipate they will run out of money in the next 1-3 months and another 32% anticipate they will run out of money in the following 3-6 months. This means over 80% of current startup companies will be without funding and cash flow after September this year (4).

3. 56% composed of 12.9% runway of 0-1 months and 43.2% with a runway of 1-3 months.

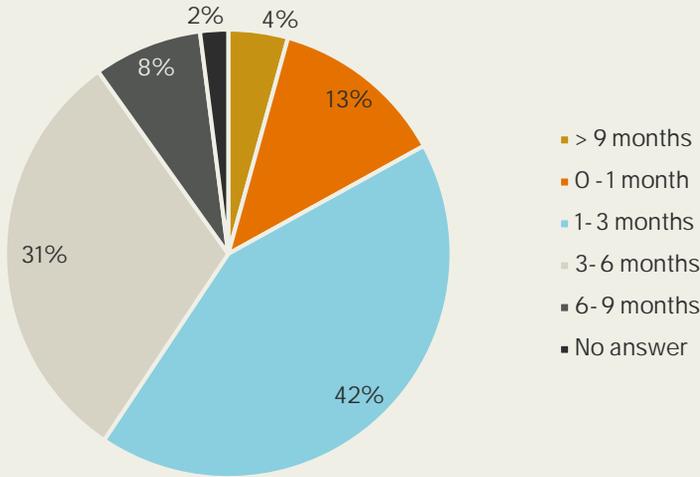
4. This assumes that no material improvement in the COVID-19 impacts has occurred and no material funding has been obtained between now and September 2020.

On the funding side we observe that 30% of startups have had funding delayed or cancelled, showcasing that these high-potential companies are seen by investors as 'at risk of not reaching potential' due to the current situation. Investors in general also get cautious that they have frozen investments. Funding is always a challenge for most startups but asking for money in a time of stagnation or losses makes this challenge even more critical; as highlighted by 47% of startups.

What has the most current and anticipated financial impact?

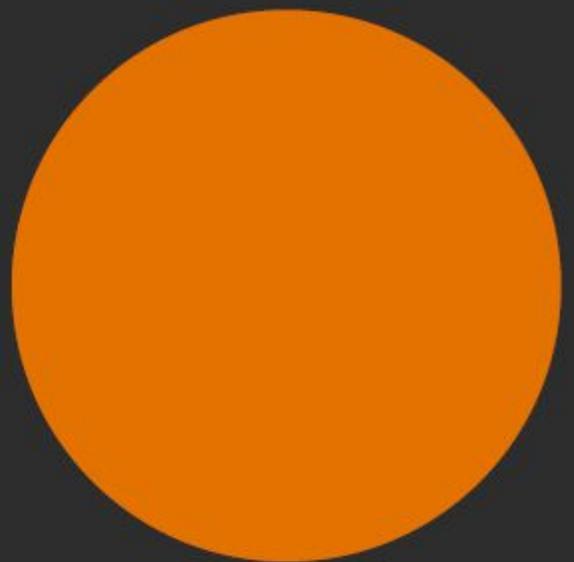


When do you expect the financial impact to become critical?



2.

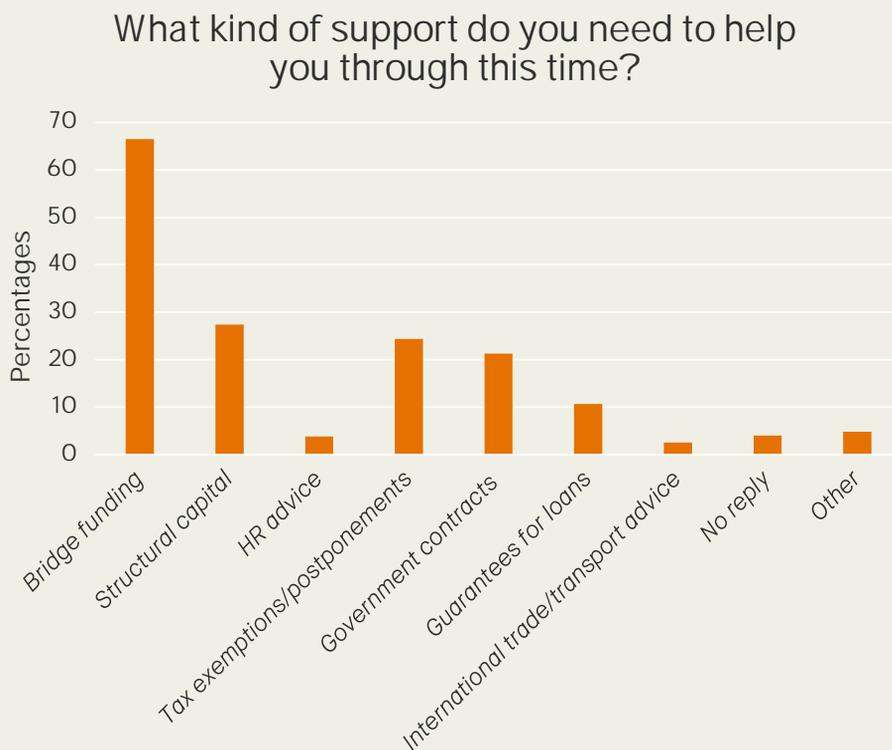
What startups are looking for?



2.1 What do startups need?

COVID-19 impact on startups is severe, it is still expected that its duration will be limited and as such should not present a structural issue for most startup business and financing models. 67% of startups indicate they need bridge funding for the period until the moment that things go back to 'normal'. Basically they urgently need short-term working capital to survive the effects of COVID-19 has on their company.

This need of bridge funding is by far the most frequently voiced support that startups need, and more than double of any of the other support needs. This echoes the importance of this funding for the entire startup ecosystem and this should be addressed in any measures taken.



66% needs bridge funding to cover day-to-day costs of which 50% needs between €0-100.000 and 31% between €100.000- 400.000 to survive the coming three months.

Correlation expected financial impact and funding needed



2.2 Who do startups rely in this time of need

We have looked at how and to which extent startups are benefiting from current measures provided by the government (5). Do they find what they are looking for?

Some 9% of startups have utilised the BMKB facility where a state guarantee allows additional funding on top of funding provided by a bank/funder. This could be attributed to the fact that the requirements of the BMKB are currently more tailored to general Small and Medium Enterprises (SME's) and not so much tailored to supporting startups companies. The requirements include being established for a minimum of 3 years whilst we observe that largest need would be predominantly with younger seed stage startups.

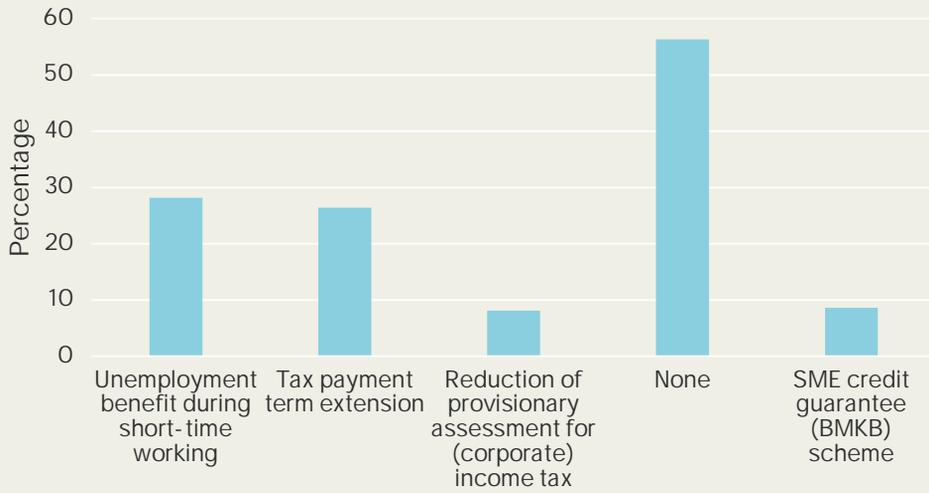
57% of startups have not used any government facilities so far. This seems to be mostly related to:

- (a) misalignment of these measures with startup businesses
- (b) startups having an incorrect or incomplete understanding of these support measures
- (c) startups not having viable business propositions yet

An example for a mature organizations: *A startup needs to grow rapidly; they would see stagnation of clients but no reduction. Large part of staff linked to growth has no work. Work time reduction is still critical but for some this implies they can not implement work time measures for staff.*

5 Current measures are the ones that have been provided to deal with (situations like) COVID-19. This package of measures is still being evaluated and tailored to actual needs in several economic areas.

What options by the government have you utilised so far?

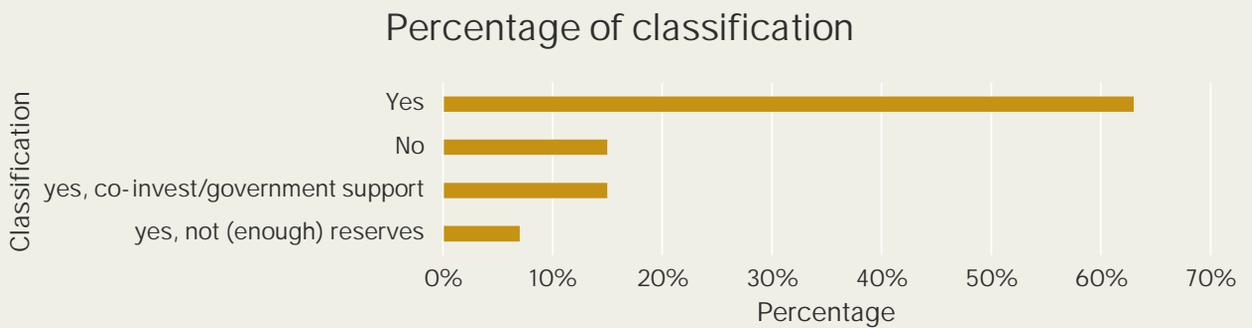


When looking at structural funding we observe that COVID-19 has caused a direct delay/difficulty in funding for nearly a third of startups. Especially now, when delivery of milestones is delayed and these companies extend their running cost over a longer period, new funding sources are needed.

We see confirmation of slowdown in funding when analysing our Venture Capital (VC) investor survey. More than half of VCs indicated that they have less confidence and are delaying investments to see how the market is developing these coming months.



That being said 70% are willing to invest fund reserves for certain promising but struggling startups in their portfolio under clear conditions with 20% calling for a co-investment structure for extra certainty whilst keeping things moving in the market.



2.3 Which startups should be prioritized

In general stories and expectations of startups are mostly optimistic about opportunities and they always feel they deserve funding. Investors often highlight that quite some startup propositions are flawed or weak or have no adequate financial planning. This raises the question whether all impacted companies should be granted any of the support measures when impacted by COVID-19.

Focus should be on those companies that had a viable proposition ahead of the COVID-19 outbreak but are temporarily impacted. Fortunately, the survey indicates that most impact should be measurable such as decrease of clients or sales. Other indicators for this also include such things as time since last round indicating the market hasn't shown a clear interest during that time period to add new life (money) to the organization. Startups with clear growth trajectories that have a history of high performance which are now stalling due to the current situation are the ones that should be focused on for any support measures.

3.

What are the possible measures and which changes to be made



3.1 Who bridges the gap

Bridge financing isn't something we can labour over in terms of discussions as we have concluded already that this is a pressing need and the target group is substantial (>50% has a runway of less than 6 months).

It's important to note VC investors are not massively pulling back but currently seeing a slow down of their investment processes. This slow down is linked to a) issues to organise physical meetings required for investment finalisation and b) increased caution on VC side. Banks could provide more loans to existing startup clients, but have generally less penetration rates in startup markets.

The BMKB state guarantee for credit currently does not cover a large part of startups (only 9% applied). We do however observe that some innovative working capital scaleups could step in and execute under BMKB license if licensing is speeded up. Many of the traditional BMKB funding processes include extensive and rigid ex ante checks, while the new entrants provide a startup-compatible and efficient way of assessing companies and their requests.

Whether checks are ex ante or ex post, any startup asking for funding should be able to present clear and credible plans for recovery post COVID-19 and root cause verified to show clear legitimacy for their application of bridge funding (this seems feasible as survey shows that clear indicators are available for 80+% of startups impacted).

3.2 What are requirements for possible funding solutions

When considering all findings and observations we see two needs that would be in need for support measures, (A) bridge loan funding and (B) structural funding and liquidity. Before jumping to solutions it is important to understand what is required for each of these solutions to make it an adequate support for the problems observed.

A. Bridge loan funding

- Quickly available, therefore it is required that existing financial facilities are being adjusted. There is not enough time to build new financing structures
- Funding process needs to be accelerated as startup runways are short. This implies that investment cases of startups need to be (a) assessed in a digital/data way instead of the traditional labour intense assessments, (b) needs to be done by institutions that already know the startups concerned or (c) need to be done ex post, so after the actual granting of the credit, which is different from some of the current funding support constructions in place.
- Needs to cover amounts up to 100K EUR as this already covers the largest part of requests and buys startups time to look at structural solutions.
- Needs to be validated by assessing basic metrics that demonstrate impact of COVID-19
- Needs to be temporary debt to bridge until a reasonable recovery time after the economic situation post COVID-19 goes back to 'normal'

B. Structural funding and liquidity

- Needs to be available in 3-6 months
- Requires a debt investment that depending on favorable conditions could turn into equity
- Requires know how of the actual sectors and technologies that are being applied to manage portfolio and related risk
- Should be used to make investing more attractive for other investors by offering material investments, and therefore reducing risk for the other investor. Once material investments are done such funding could be reduced.

As Techleap we hope that this report has provided you clear insights in the actual impacts of COVID-19, the problems that startups are facing and the possible areas where solutions could be provided. After all we should realise that these startups and scaleups bring innovation and competitiveness, as well as economic growth and jobs. Parallel to this survey and analysis we are looking at ways to support startups in this difficult phase. We are grateful for all contributions made by startups and investors that provided the basis for these insights.

7. Groiefaciliteit, een bestaande regeling

8. More attractive for the VC fund as the exposure of their investment is limited compared to the total investment and return in the startup business case.

ANNEX A Methodology and approach

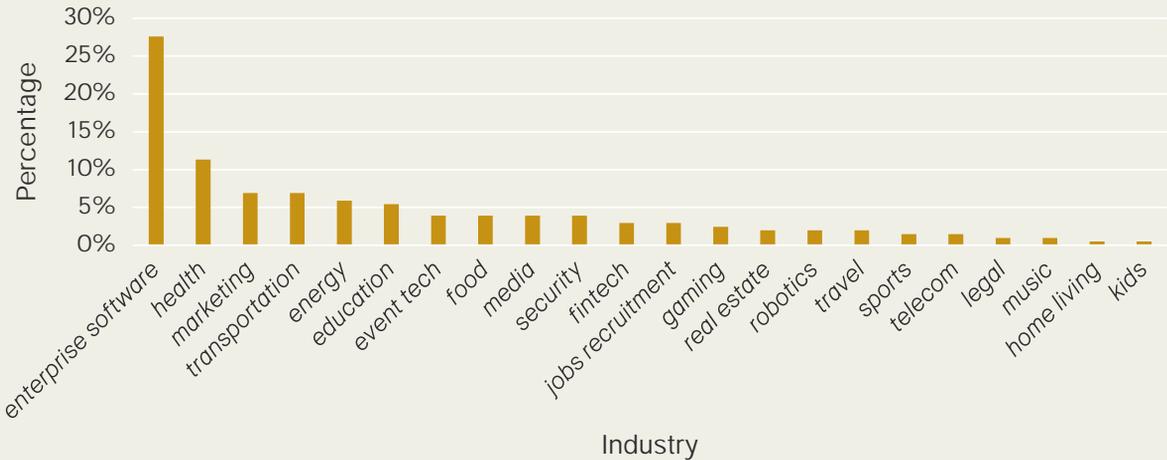
Techleap.nl has obtained surveys from 400+ startups and a material number of VC funds and other investors. We have ensured balanced participation by pushing the survey through different channels; through social media, general startup selection and by VC, banks and other investors forwarding the survey to their startups.

We have mapped the survey data to publicly available data concerning investment deals and startup data (transactions, sector data, stage data, etc.).

As such we have observed that participants compose a realistic representation of the startup ecosystem in The Netherlands. And with a test population of 400+ we have a relevant part of Dutch startups included in this survey.

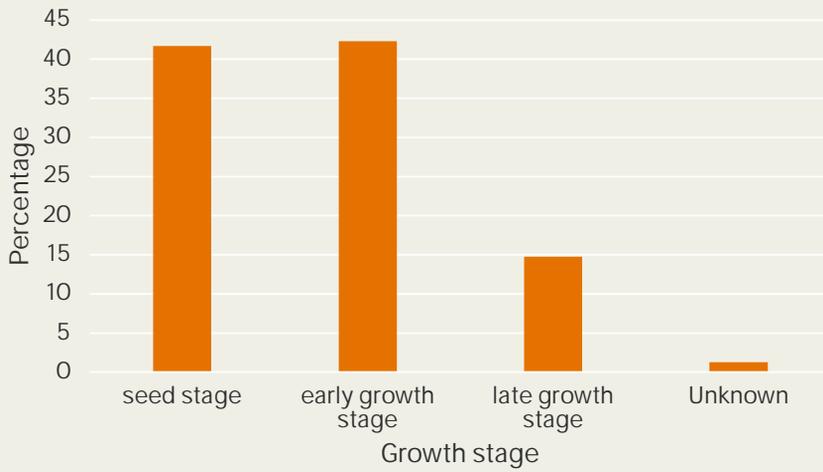
Survey questions have been validated both with startups and investors to ensure adequate data for our analysis.

Response distribution over the industries



Survey participants categorized by industry

Questionnaire distribution



Survey participants categorized by growth stage

2. Growth stage

for Startups/Scaleups : Automatically selected

	Seed	Early	Late
Growth stage rules			
By employees	<10 people	11-50 people	50+ people
If no employees, total funding	<2M funding	2-10M funding	10M+ funding
If no employees and no funding data, age	< 1.5-2 years ago	2- 5 years ago	5 years ago +
If none of these	Keep what is now		

Explanation of growth stages for startups/scaleups