

## **Results of the market pulse survey**

4 March 2021

Tesi

Business Finland Venture Capital

Finnish Venture Capital Association

Finnish Business Angels Network

# Contents

Market pulse - basic information and summary	page 3
FiBAN's pulse survey for members 2021	page 7
Tesi's market pulse survey	page 10
Growth forecasts 2021	page 11
Sufficiency of reserves	page 15
Availability of talent	page 22

## The market pulse survey covers 24–32 Finnish VC & PE investors and 362–446 growth companies

- ◆ The first pulse surveys of Finland’s VC & PE industry were conducted during Q2/2020, right at the start of the COVID-19 pandemic.
- ◆ The recent survey was sent to all Finnish VC & PE investors during the period 3.–12.02.2021.
- ◆ The responses in the sample cover altogether 446 portfolio companies, of which one-third are in the growth or buyout phase and two-thirds in the venture capital phase.
- ◆ The company sampling covers different fields and growth stages comprehensively and represents Finnish private equity backed companies well.

Previous survey  
15.–22.5.2020

24

VC & PE investors

362

portfolio companies

306

Finnish portfolio  
companies

Recent survey  
03.–12.2.2021

32

VC & PE investors

446

portfolio companies

353

Finnish portfolio  
companies

## What was asked in the questionnaire?

The aim of the questionnaire is to create a snapshot of the business and financial position of Finnish investment companies' *current* portfolio companies. The snapshot enables a data-based evaluation of the need for state intervention to support venture capital and private equity backed companies and of the best ways to meet that need.

The questionnaire asked VC & PE investors to assess the following aspects of each of their active funds concerning the 15 most valuable portfolio companies:

- ◆ How will the COVID-19 pandemic impact your company's sales growth in 2021?
- ◆ For how many months will your company's reserves last without follow-on financing?
- ◆ Has your company raised financing since 1 July 2020?
- ◆ Has your company faced challenges in recruiting talent recently, and how does your company envisage the availability of talent in future?

## Analyses based on survey results

- ◆ In conjunction with the third market pulse survey (February 2021), Tesi compiled an estimate of the value of portfolio companies (fair value of shareholders' equity as of 31 September 2020) for those companies in which Tesi is an investor, either directly or through funds.
  - There are 225 companies in this sample (representing 50% of the total number), of which 40% are in the growth or buyout and 60% in the venture stage.
  - This data is used in the analysis for identifying larger concentrations of value.
- ◆ The analyses are mainly organised according to the company's development stage reported by the investors (e.g. seed, buyout). Therefore, it may differ from the development stage stated in the fund's investment strategy.
- ◆ The various analyses are arranged in the presentation as follows:

Name of analysis - Number Analysis of the number of companies, based on the responses to the February 2021 pulse survey

Name of analysis - Value Analysis of the values of shareholdings, based on the responses to the February 2021 pulse survey<sup>2</sup>

Name of analysis - Change Analysis of February 2021 Pulse responses compared to May 2020 pulse responses<sup>1</sup>

# Main observations from February 2021 market pulse survey

## Impacts of the pandemic on businesses are more polarised than earlier

- ◆ Investors assessed the impacts of the COVID-19 pandemic on portfolio companies' businesses as being more polarised than in May 2020. Now the impacts of the pandemic are clearer, as companies themselves have a more refined view of how their businesses will develop.
- ◆ Similarly to earlier surveys, investment value is concentrated in companies with a better outlook than on average.

## Fundraising and other financing sources have improved the sufficiency of financing for companies

- ◆ The sufficiency of financing has improved in the companies concerned, especially in later growth-phase companies. An average 23% (previously 31%) of said companies, however, have reserves sufficient for less than six months.
- ◆ Almost every other company has raised financing since 07/2020, improving the companies' liquidity. Fundraising does not in itself, however, fully explain the improvement in financing sufficiency.
- ◆ Investment value is concentrated in companies with longer than average financing sufficiency.

## Good supply of skilled personnel, but small startups face challenges in finding talent

- ◆ Around one in two companies has recently found the availability of skilled workforce challenging.
- ◆ Moreover, some 5% of respondent companies have faced significant challenges in this respect.
- ◆ The greatest challenges in the availability of skilled workforce are seen in companies below the 10 M€ size range and venture capital companies.

## Recruiting talent is more challenging for Finnish companies

- ◆ Finnish companies face the greatest challenges amongst the respondents in recruiting expertise, especially those expecting sales growth to be negatively impacted by the pandemic.
- ◆ Some 57% of Finnish companies with weakened growth prospects foresee challenges in recruiting talent, while the corresponding figure for foreign companies is 31%.

## Angel investors expect to invest more in 2021 than in 2020

- ◆ Angel investors' deal flow was record high in 2020.
- ◆ While in the previous pulse survey 65% of angel investors expected to invest less than the year before, this year the equivalent figure is only 6%.
- ◆ 71% do not see the pandemic impacting this year's investment decisions.



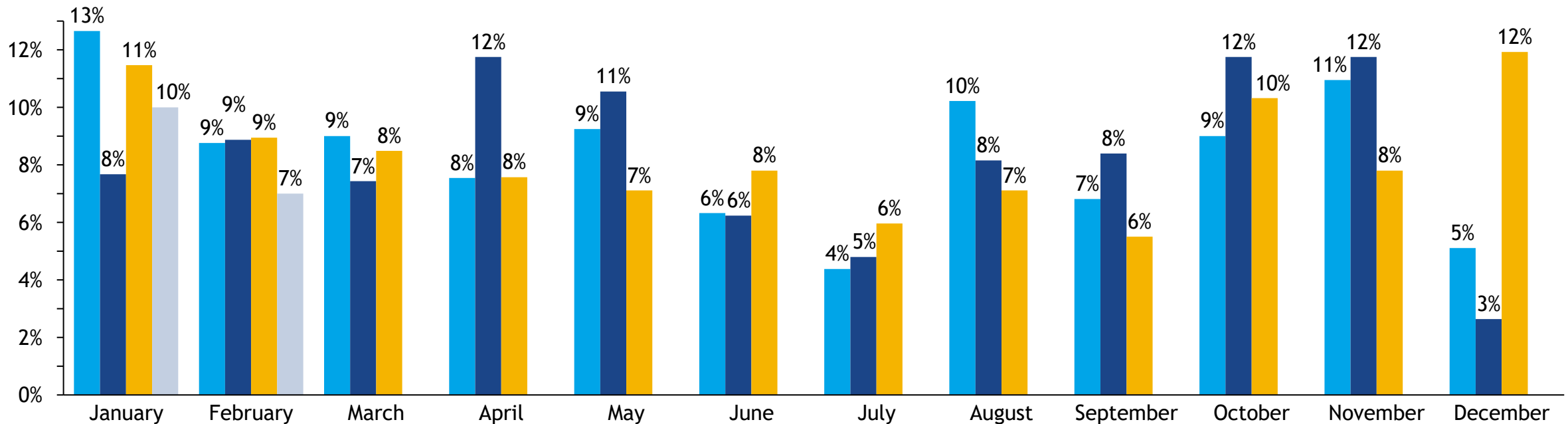
## Business Angels' Pulse survey 24.–25.2.2021

# FiBAN's deal flow 2018-2021: the impact of the pandemic on the received financing applications remained modest – record number of applications in 2020

## Angel deal-flow known to FiBAN 2018-2021

2018 2019 2020 2021

% of the year's deal flow

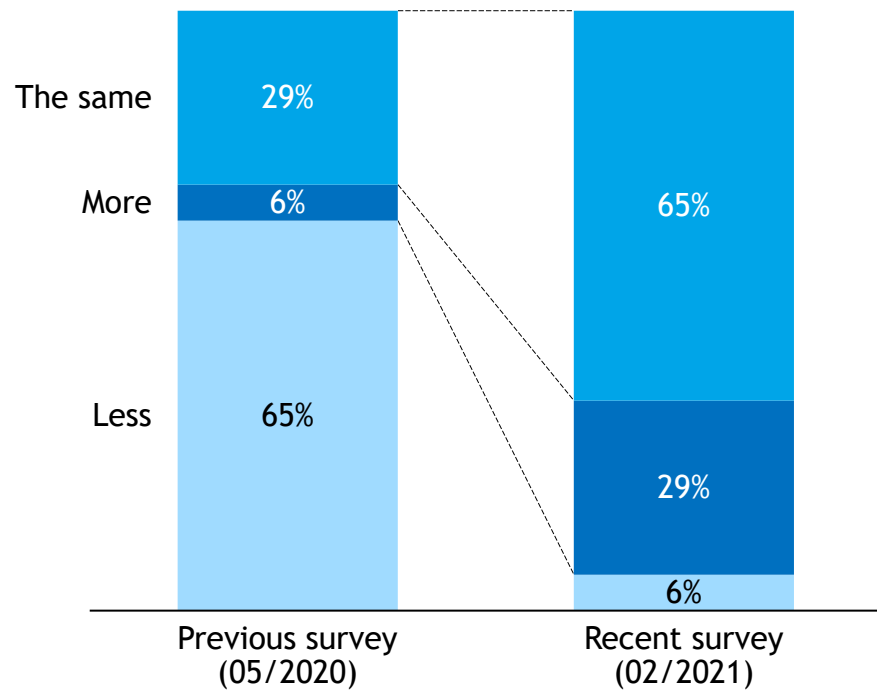


- ❖ Angel investors' deal flow was record high in 2020. The pandemic has not had negative impact on investment volumes.
- ❖ Deal flow at the start of 2021 has not seen deviations, either.



# Angel investors expect to invest more this year than in 2020 – Majority do not see the pandemic impacting their investment decisions

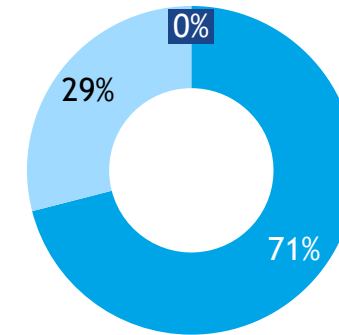
“How much do you expect to invest in startups this year compared to 2020?”



❖ Angel investors’ interest has recovered and improved. The initial impacts of the pandemic on investors’ interest have become more positive.

Does the pandemic still impact your investment decisions?

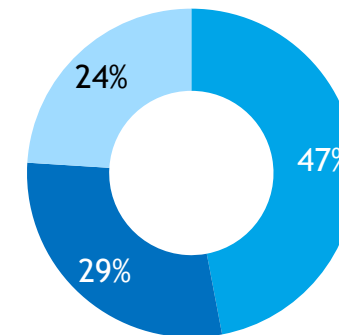
- No impact
- Hinders
- Increases interest



❖ Around one third of angel investors feel the pandemic hinders their investment activities. The rest do not see it impacting their decisions.

This year, do you plan to maintain on the same level, increase or decrease your international angel investments?

- Maintain
- Increase
- Decrease



❖ There is a slight increase in the interest of angel investors in cross-border investments.

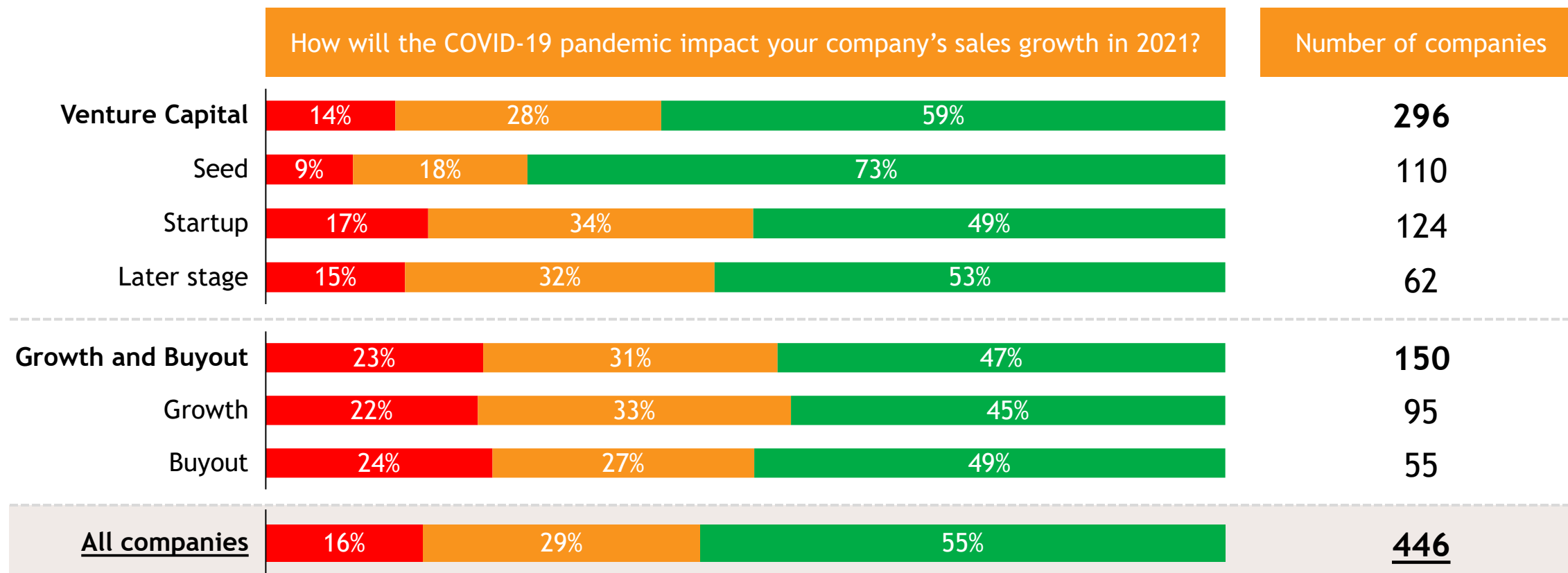
**BUSINESS  
FINLAND**  
VENTURE CAPITAL



**Market pulse survey**  
**03.–12.2.2021**

# Growth forecasts

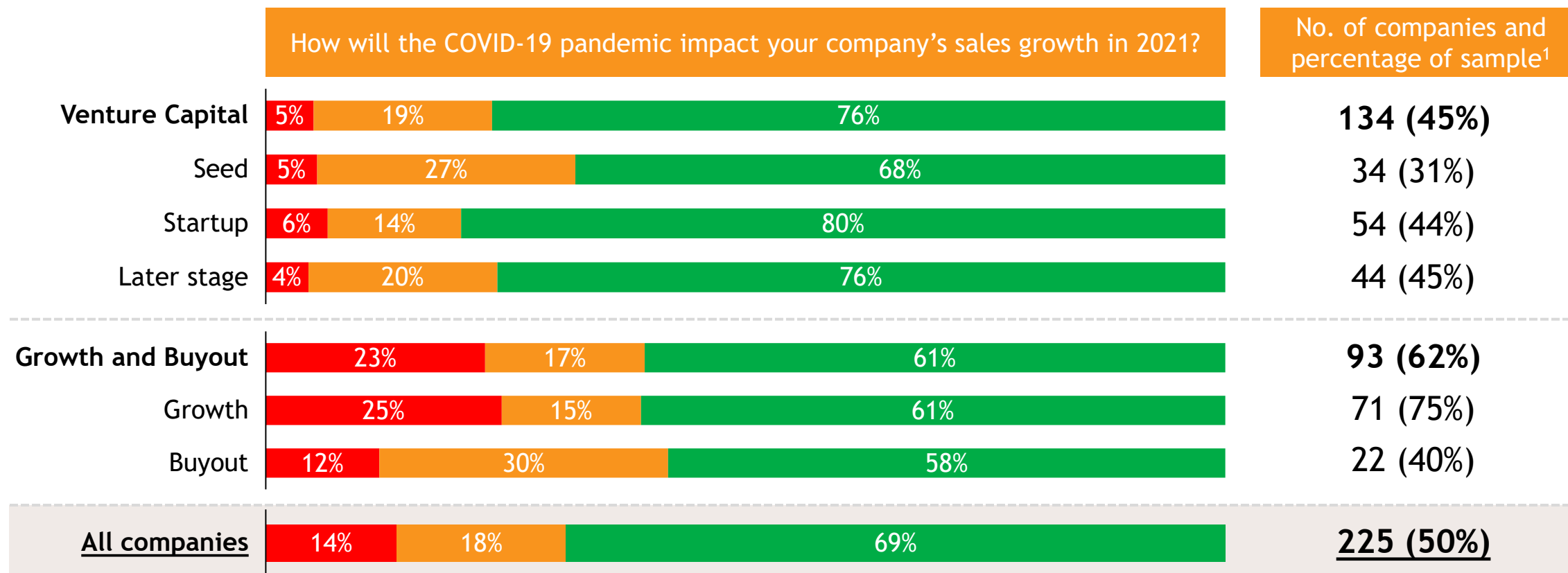
# The COVID-19 pandemic negatively impacted the 2021 sales growth expectations of 45% of VC/PE-backed companies



- Very negative, growth halted or started declining due to the COVID-19 pandemic
- Negative, growth slackened due to the COVID-19 pandemic
- Neutral/Positive, growth accelerated or was undisrupted by COVID-19 pandemic

- ◆ Compared to VC-backed companies, the upheaval caused by the COVID-19 pandemic has had a more negative impact on growth and buyout backed companies' growth forecasts.

# Value concentrated in companies experiencing positive or neutral impacts from COVID-19 pandemic



- Very negative, growth halted or started declining due to the COVID-19 pandemic
- Negative, growth slackened due to the COVID-19 pandemic
- Neutral/Positive, growth accelerated or undisrupted by COVID-19 pandemic

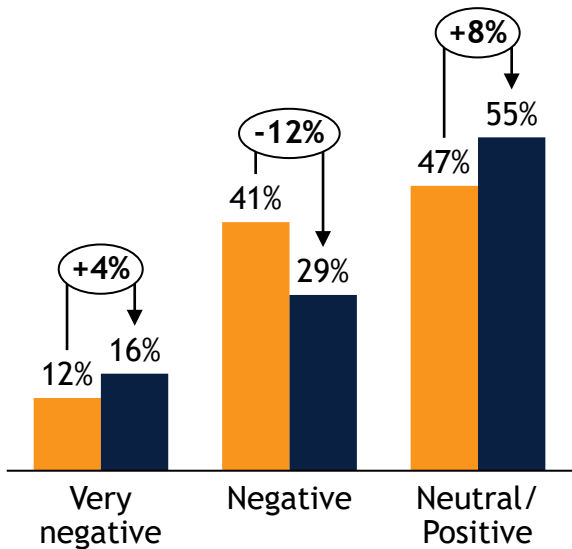
- ◆ This is a good situation from the value creation perspective since most value is concentrated in companies with growth outlooks impacted either neutrally or positively by the COVID-19 pandemic.
- ◆ The findings for the VC and the growth & buyout markets are broadly similar.

# More polarisation in business growth expectations compared to May 2020 survey results

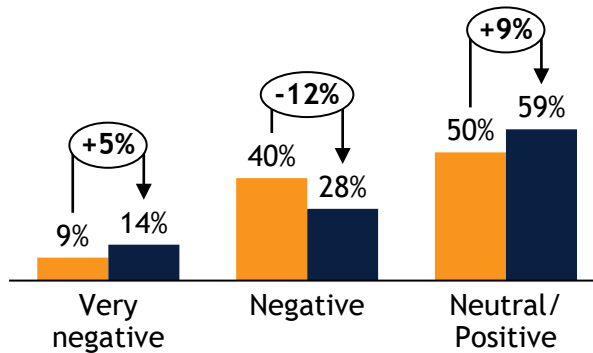
Impact of COVID-19 pandemic on company's growth compared to responses in May 2020 survey (Number, percentage change)

## All companies

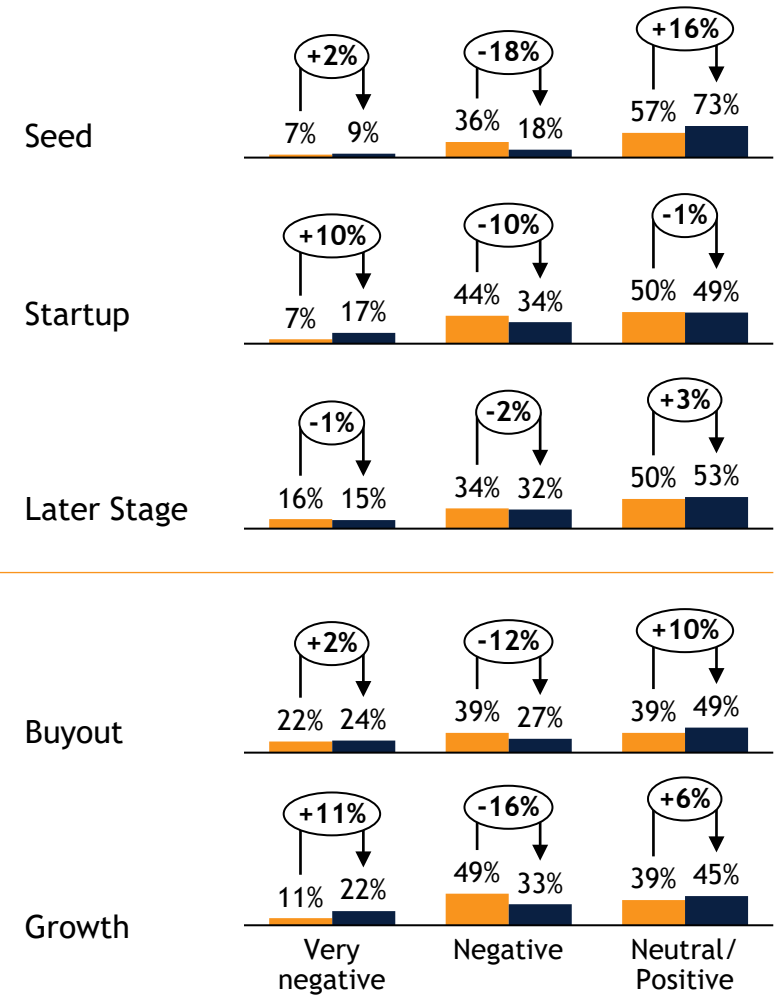
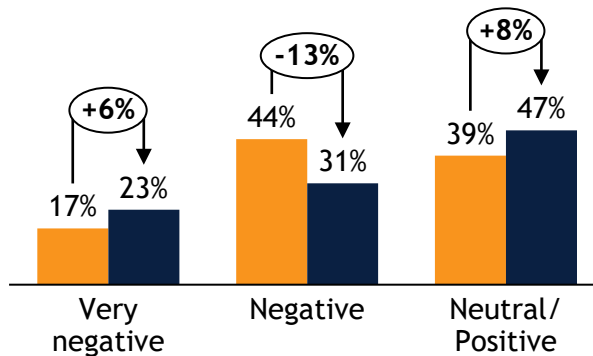
■ Proportion of respondents, May 2020 survey  
■ Proportion of respondents, Feb 2021 survey



## Venture Capital

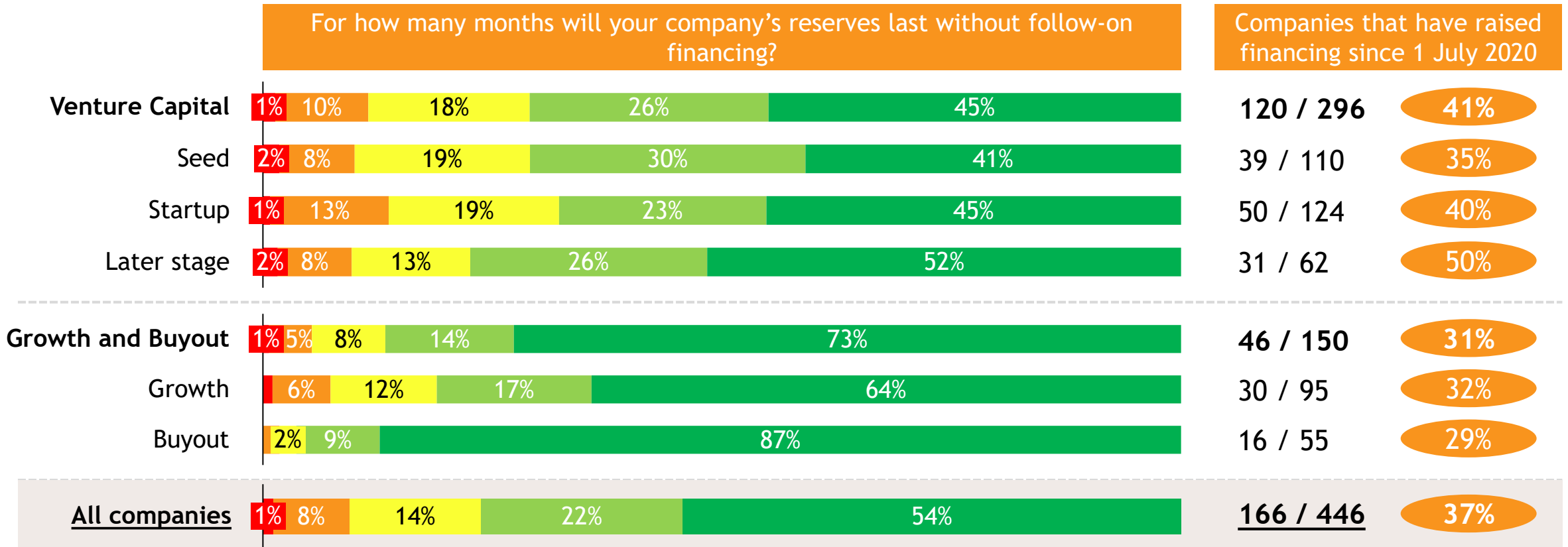


## Growth and Buyout



# Sufficiency of reserves

# Over half of the companies have sufficient reserves for the next 12 months — Roughly 40% of companies have raised financing since July 2020

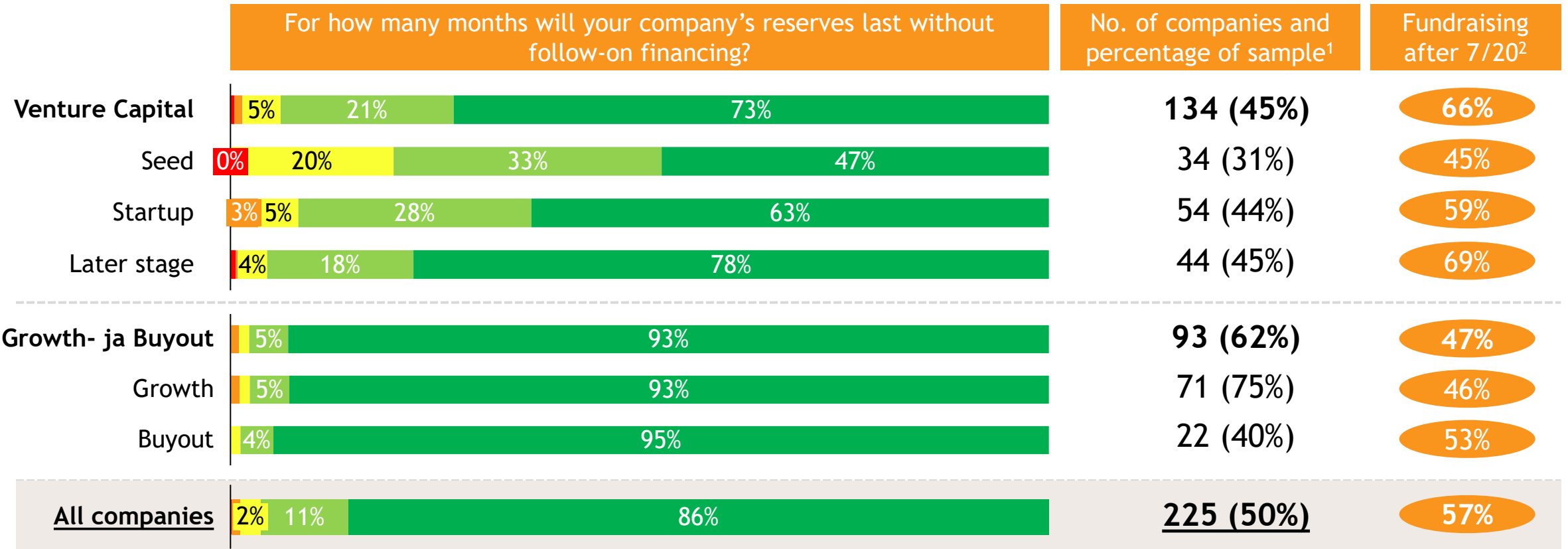


■ <1 mth 
 ■ 1-3 mths 
 ■ 4-6 mths 
 ■ 7-12 mths 
 ■ >12 mths

- ◆ With VC companies, the sufficiency of reserves is distributed broadly the same as in normal circumstances.
- ◆ Growth and buyout companies, in particular, have managed to improve the sufficiency of their reserves by utilising financing options more diversely.



# Value is concentrated in companies holding reserves sufficient for a longer period — funds raised especially in VC-backed companies with high value



■ <1 mth 
 ■ 1-3 mths 
 ■ 4-6 mths 
 ■ 7-12 mths 
 ■ >12 mths

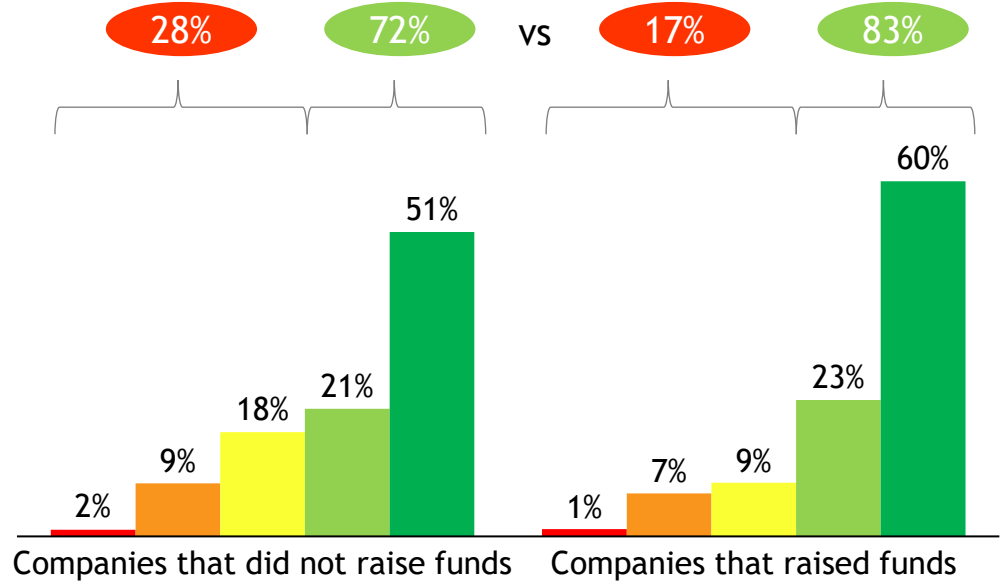
- ◆ Most fundraising activity was in high-value companies with, especially VC-backed companies (see figures on previous page).
- ◆ Companies expecting reduced sales in 2021 due to the COVID-19 pandemic have found fundraising more challenging.

# Raised funds have secured the liquidity position of companies, particularly of VC-backed companies

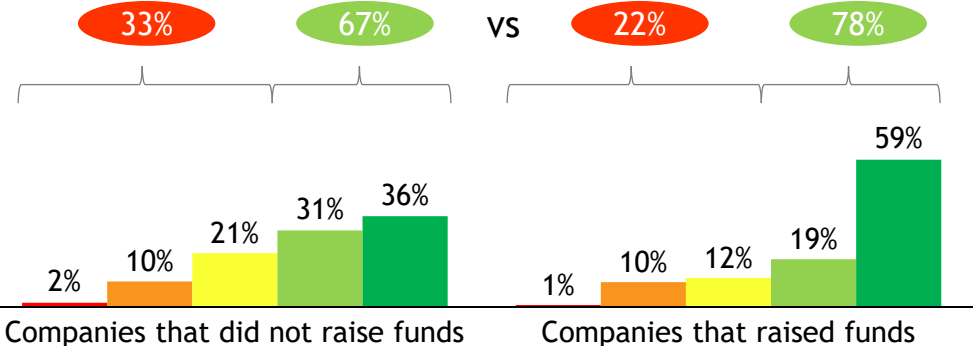
Distribution of sufficiency of financing, depending on company's recent fundraising

## All companies

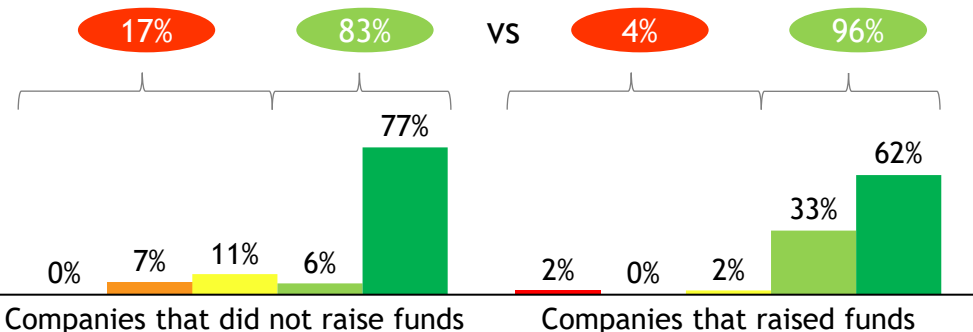
■ <1 mth 
 ■ 1-3 mths 
 ■ 4-6 mths 
 ■ 7-12 mths 
 ■ >12 mths



## Venture Capital



## Growth and Buyout



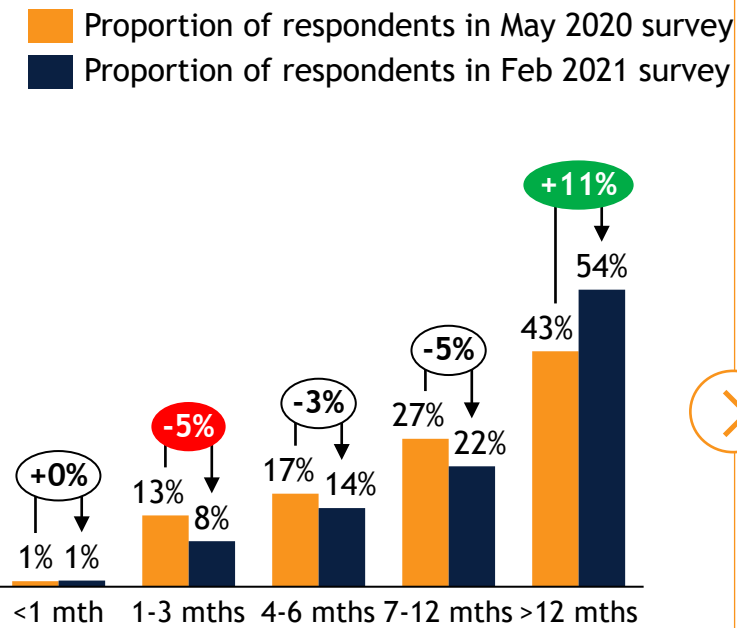
◆ Growth and buyout companies have had good liquidity even without fundraising



# Companies' liquidity position has improved compared to May 2020 survey results

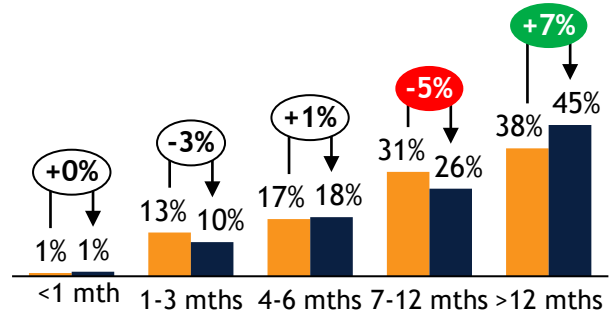
Sufficiency of reserves compared to May 2020 survey responses (percentage change)

## All companies

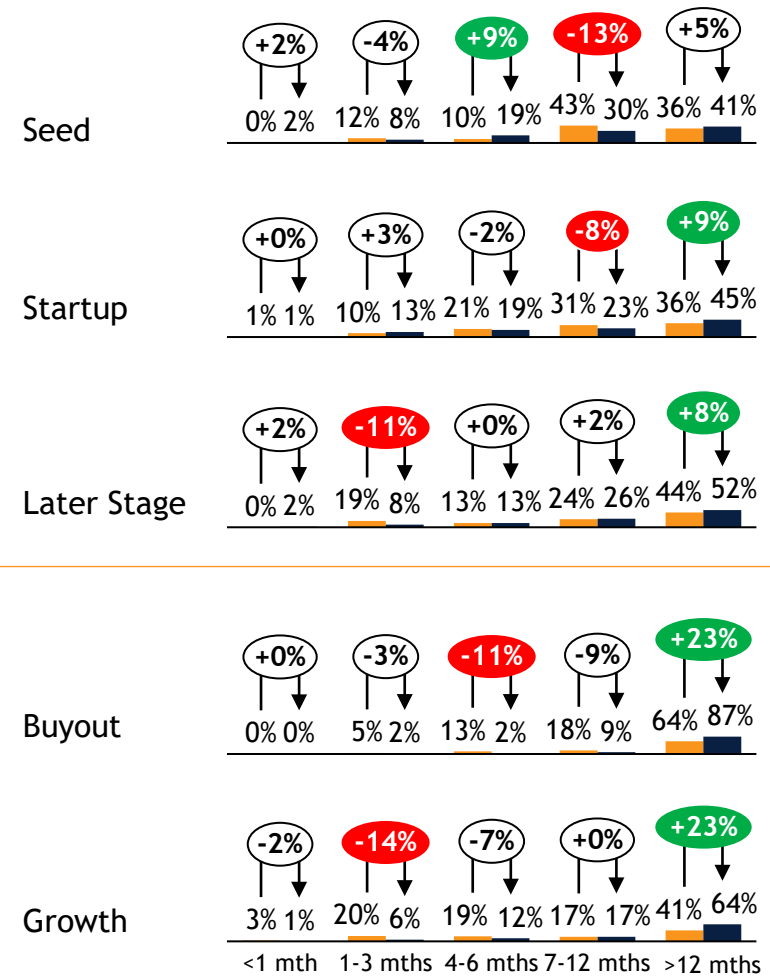
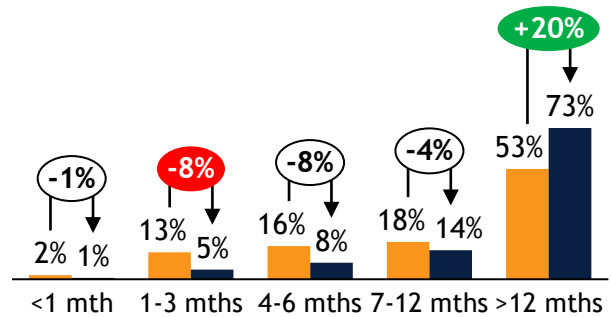


The general financing situation for Finnish VC/PE backed portfolio companies has improved since spring 2020

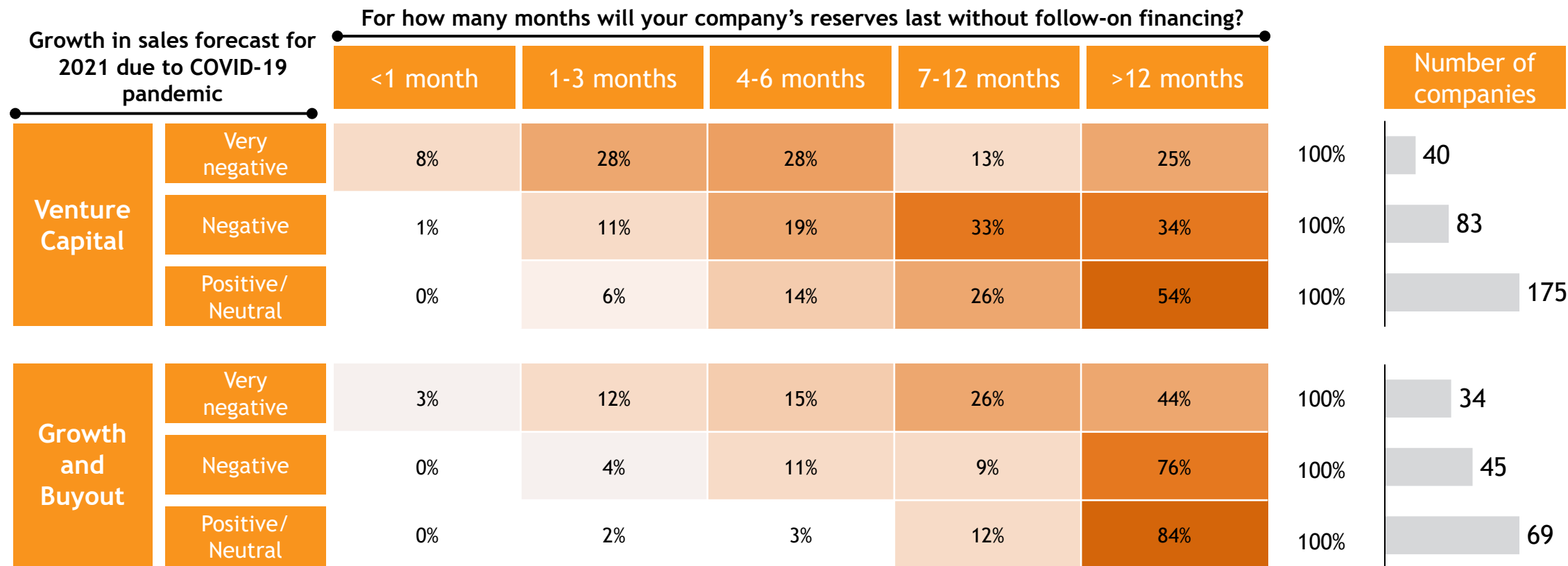
## Venture Capital



## Growth and Buyout





# Companies' liquidity position has improved in those companies not negatively impacted by the pandemic



- ◆ Reserves will last for longer in companies that have not been negatively impacted by the pandemic
- ◆ Roughly one in four of companies very negatively impacted by the pandemic are in immediate need of financing (sufficient reserves for less than 3 months)

# Liquidity has improved compared to previous survey, also in companies facing difficulties — more polarisation amongst VC-backed companies

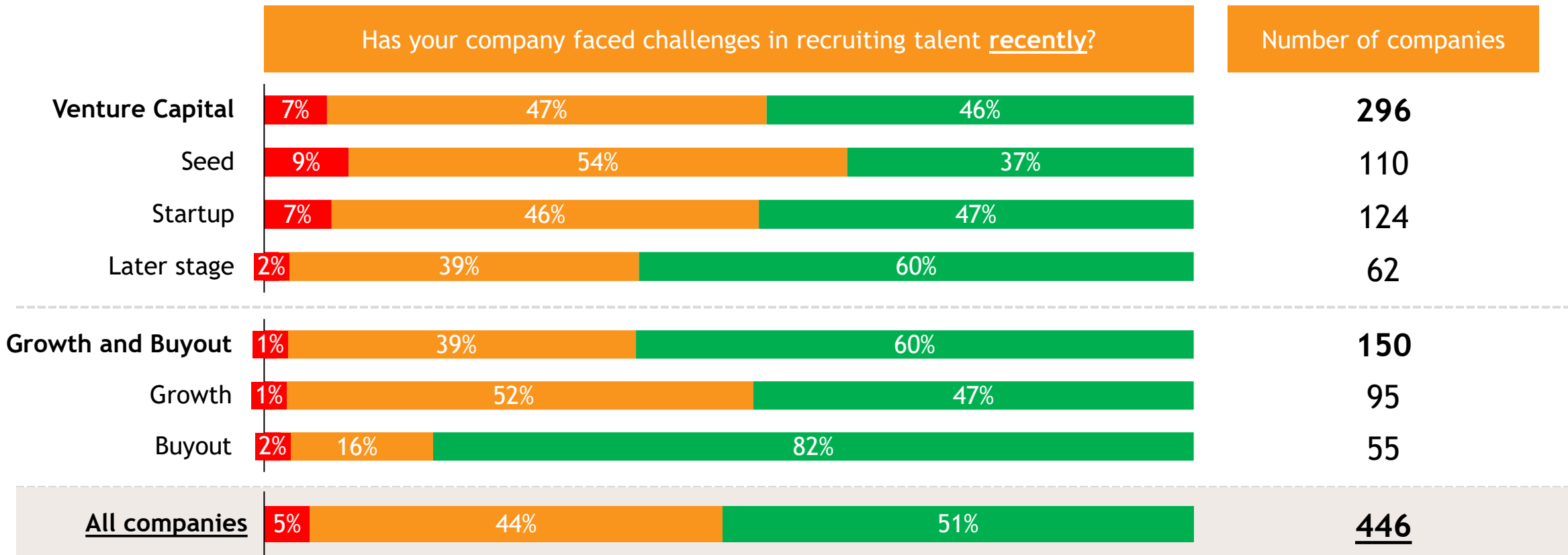
Growth in sales forecast for 2021 due to COVID-19 pandemic		For how many months will your company's reserves last without follow-on financing?					General estimate of change in liquidity
		<1 month	1-3 months	4-6 months	7-12 months	>12 months	
Venture Capital	Very negative	+4%	-17%	+8%	-8%	+13%	Improvement in some companies, not in others
	Negative	+0%	-4%	-4%	-3%	+10%	Improved
	Positive/Neutral	+0%	+0%	+2%	-4%	+2%	Slightly improved
Growth and Buyout	Very negative	-7%	-23%	-10%	+16%	+24%	Clearly improved
	Negative	0%	-7%	-2%	-10%	+19%	Clearly improved
	Positive/Neutral	0%	-3%	-12%	-8%	+22%	Clearly improved

 Lower percentage of companies compared to 05/2020 survey  
 Higher percentage of companies compared to 05/2020 survey

- ◆ Liquidity of growth and buyout companies has considerably improved - both in companies facing difficulties and in those with healthy growth.
- ◆ Slightly improved situation amongst VC-backed companies. Some companies that are more negatively impacted by the pandemic are still encountering liquidity challenges.

# Availability of skilled workforce

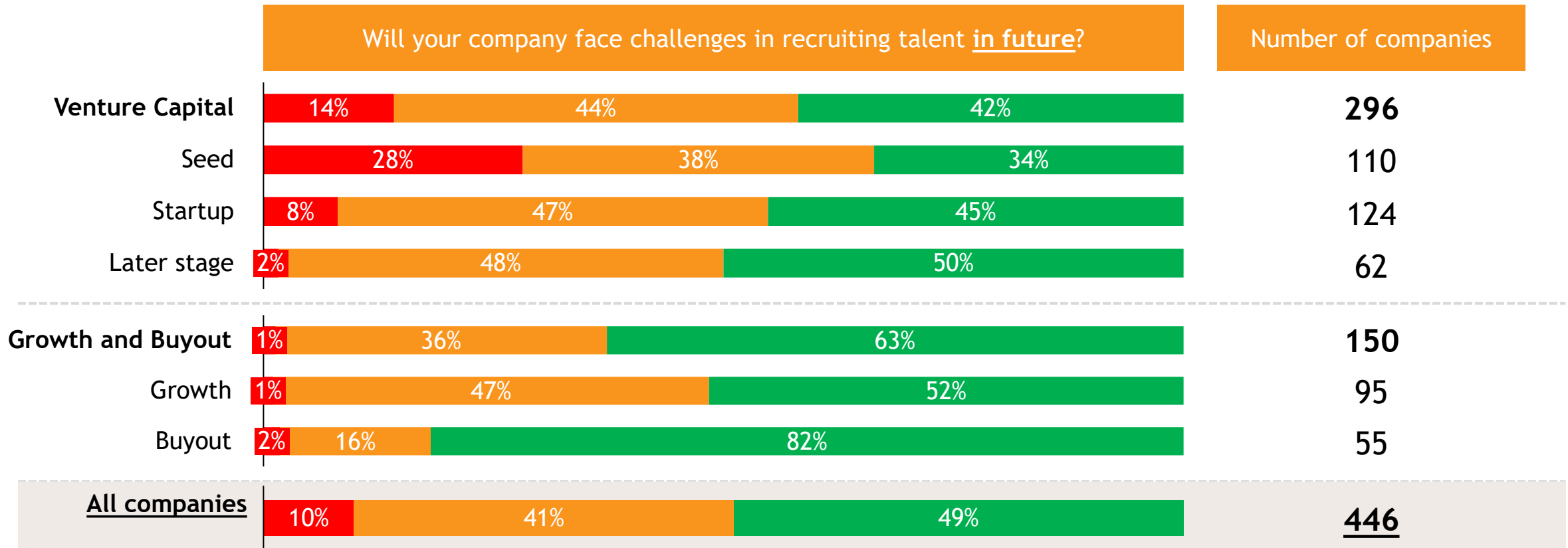
# Roughly one out of every two VC and growth companies have faced challenges in the availability of talent — availability less challenging for buyout companies



- Significant challenges
- Occasional challenges
- Good availability / no challenges

- ◆ Roughly one out of two companies have encountered challenges in the availability of talent. VC companies found it slightly more challenging than later stage companies. Seed-stage companies encountered very severe challenges.
- ◆ Generally, some 5% of companies have encountered significant challenges in the availability of talent.

## Availability of talent envisaged as somewhat challenging also in future — most significant challenges for companies in early development stage

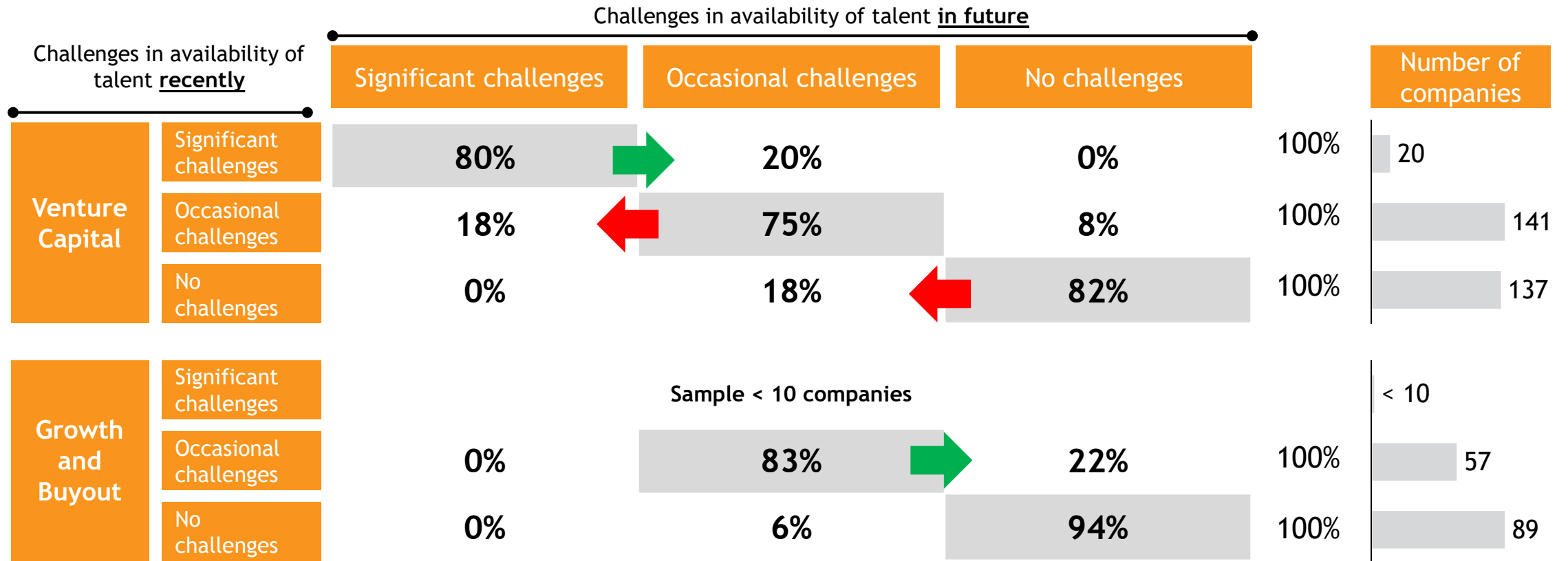


- Significant challenges
- Occasional challenges
- Good availability / no challenges

- ◆ Future challenges in availability of skilled workforce more prominent in companies in their early stage of growth.
- ◆ Whereas only 18% of buyout companies expect future challenges in the availability of talent, a high 66% of seed companies expect challenges in the future.



# Expected challenges in the future availability of talent are also most prominent in VC companies that encountered few challenges recently



■ Situation where challenges in availability of talent remain unchanged

- ◆ Venture capital companies envisaging challenges in the availability of talent in future are mainly those that have faced few or no challenges recently. VC companies that have encountered significant challenges in the availability of talent recently expect fewer challenges in future.
- ◆ Growth and buyout companies envisage improvement in the availability of talent in future, despite experiencing relatively few challenges recently.

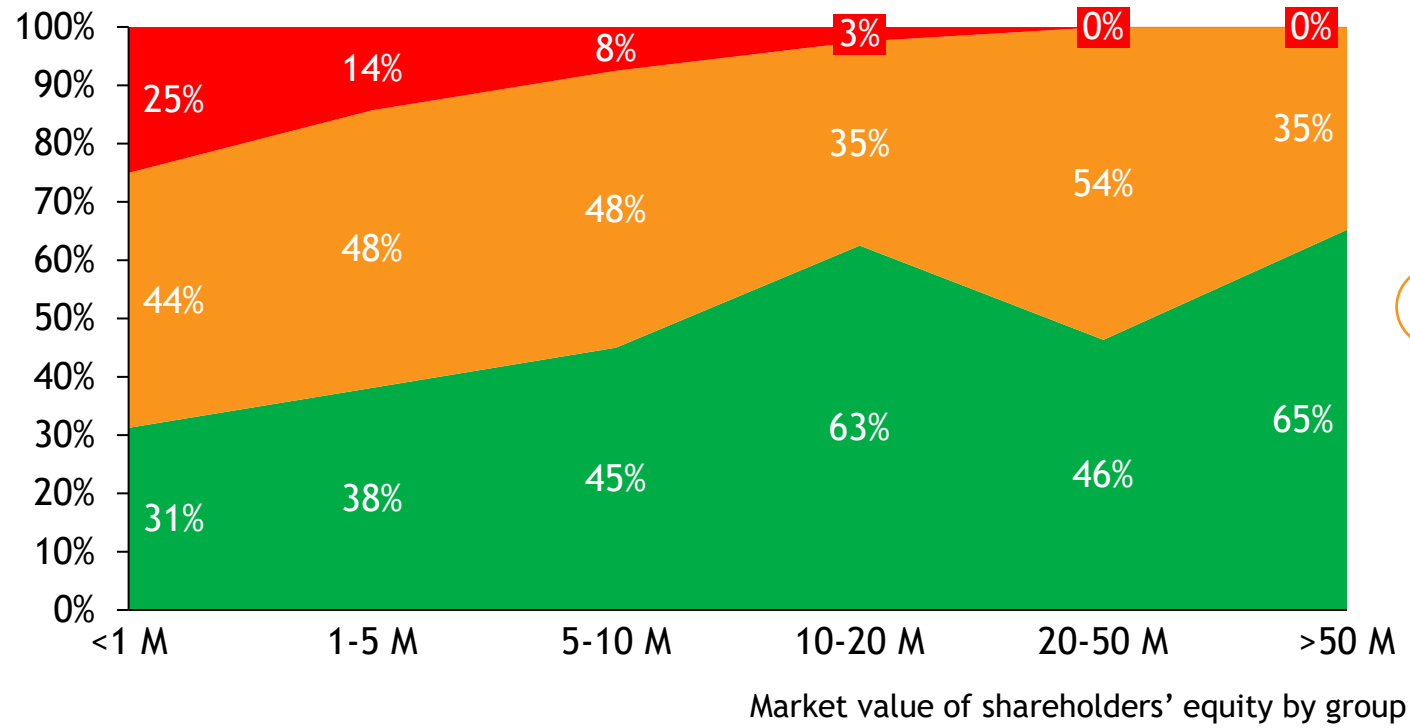
# Challenges in future availability of talent concentrated in companies with value less than 10 M€

Challenges in future availability of talent in relation to company valuation (€)

## All companies

■ Significant challenges 
 ■ Good availability/no challenges 
 ■ Occasional challenges

Percentage of companies in valuation group (No.)



- ◆ Companies with a low valuation face greater challenges in the future availability of talent than companies with a high valuation.
- ◆ The most significant challenges in the future availability of skilled workforce are expected in companies with valuations below 10 M€: over 50% of such companies expect availability challenges.
- ◆ The findings are broadly similar if companies in the VC or growth & buyout stages are analysed separately, but this analysis is not presented as the sample size would be so small.

Sample (n) 16 42 40 40 41 46

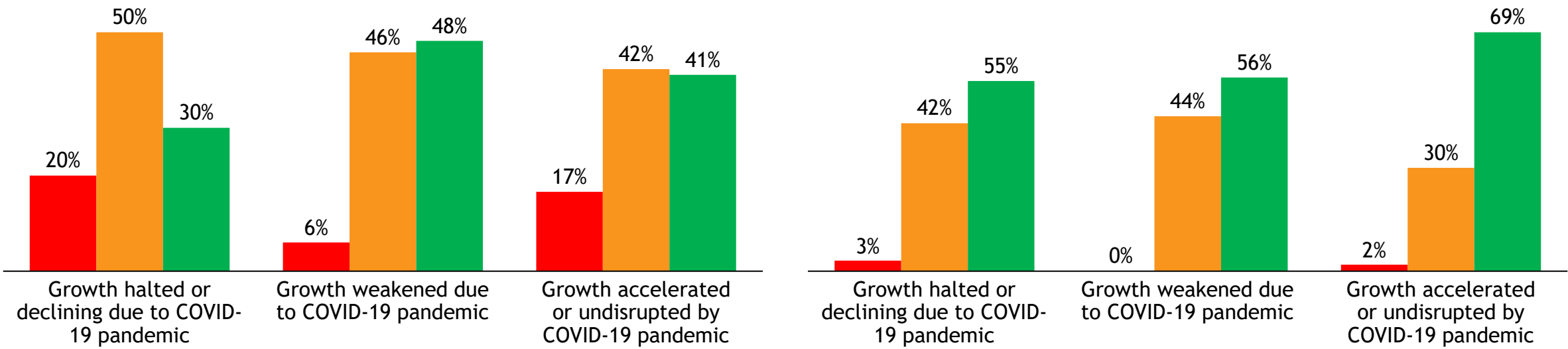
# VC companies facing more challenges in availability of talent — growth and buyout companies expect very good future availability

Breakdown of challenges in future availability of talent by company growth forecast for 2021

## Venture Capital

## Growth and Buyout

■ Significant challenges
 ■ Good availability/no challenges  
■ Occasional challenges



Sample (n)

40

83

175

33

45

54

# Finnish companies face more challenges with availability of talent — differences are greater in companies with weakened growth caused by pandemic

Breakdown of future challenges in availability of talent by Finnish/foreign companies' 2021 growth forecasts

Companies with weakened, declining and halted growth

Companies with accelerating and undisrupted growth

■ Significant challenges
 ■ Good availability/no challenges
 ■ Occasional challenges

