

H1 '20 **SENTIMENT REPORT**

SURVEY OF MENA STARTUPS & INVESTORS
QUANTIFYING THE IMPACT OF COVID-19



The Business School
for the World®

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The first half of 2020 has been an extraordinary period for the start-up ecosystem in the Middle East and Northern Africa (MENA). With a recession following the COVID-19 lockdown and a growing emphasis on the need for digitization, technology ventures are at the forefront of the systemic change that is occurring across the economy. These companies will be the driving force behind the region's digital transformation and its evolution to the new normal.

INSEAD joined forces with MAGNiTT, MENA's most comprehensive startup data platform, to launch the first startup and VC sentiment survey in early June 2020. The study aims to provide useful reference points and to act as a tool for policy makers in shaping initiatives that can help the start-up community navigate the COVID-19 crisis and plan its aftermath more confidently.

A follow-up survey will be conducted in the fall to measure the full-scale impact of the pandemic on the MENA startup environment, as well as its resilience to this unprecedented situation.

Startups' Challenges

- 60%** of founders are facing revenue decrease and a subsequent lack of cash (**47%**), and also struggle to stick to the projected business plans (**41%**) due to disrupted operations (**46%**)
- Fundraising (**61%**) preoccupies more than half of responding founders
- Health and safety are of concern to just about a quarter of startups (**24%**)
- Cash-strapped founders report to have resorted to changing business models (**45%**) as well as products and services (**40%**) reflecting the need of tech ventures to adjust their value proposition
- Investors indicate that managing the workforce with salary cuts (**78%**), hiring freezes (**64%**) and layoffs (**39%**) were their portfolio ventures' most common responses to the lack of cash

Fundraising

- 53%** of founders point to a slower pace of fundraising for the remainder of 2020. FinTech, EdTech and ICT founders are accelerating fundraising plans, while startups in traditional retail, transportation and entertainment are reducing valuations
- 37%** of founders face fundraising challenges from unresponsive investors
- Looking ahead, **27%** of investors are changing their mandate towards positively impacted tech-driven industries, while the VC appetite for new ventures or geographies has dried up
- The majority of investors (**58%**) are looking to delay exits
- Lower valuations affect **42%** of startups in investors' portfolios



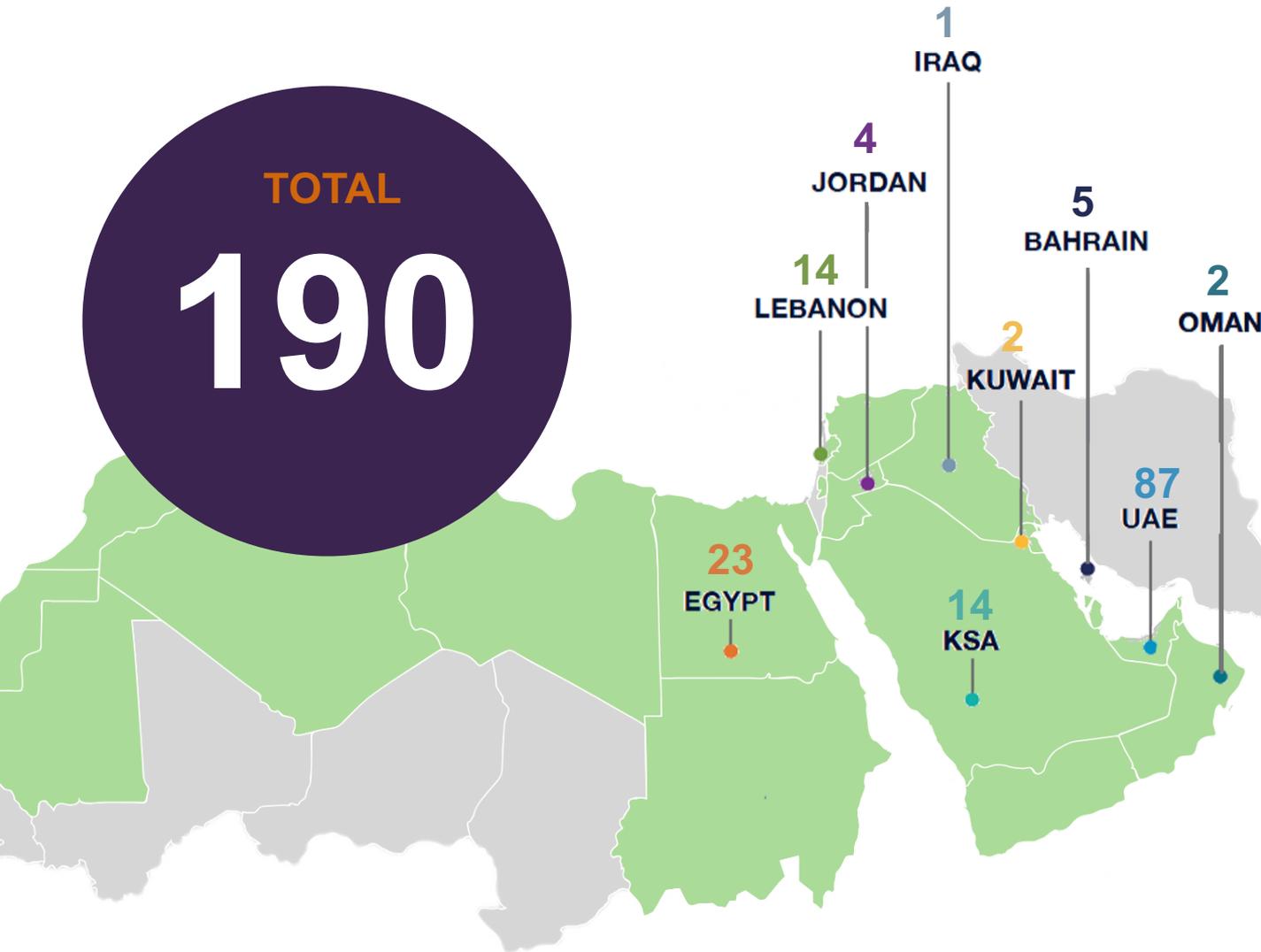
SURVEY PARTICIPANTS

Startup HQ – Where are they located?



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TOTAL
190

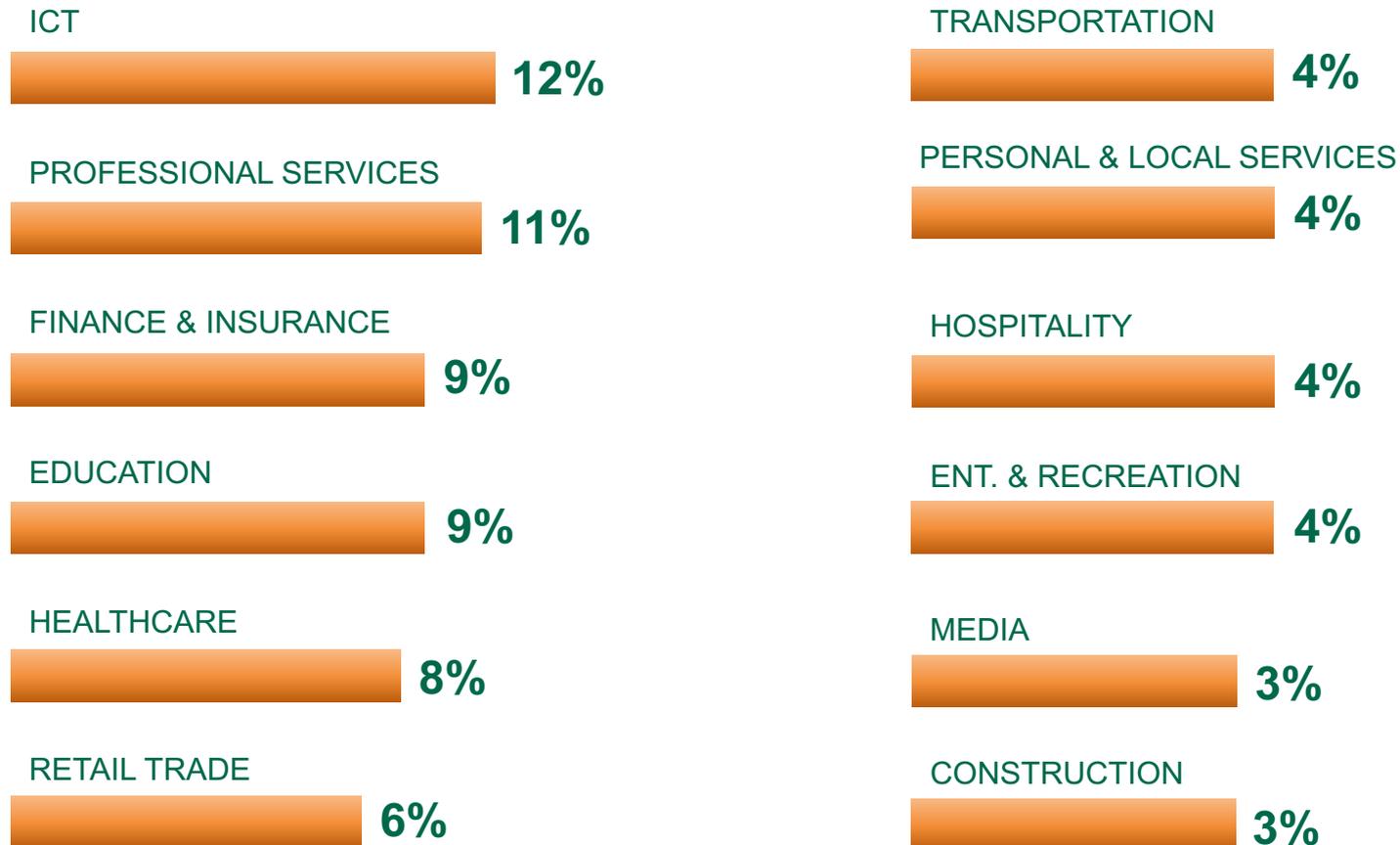


Other
38

Startups – What sector are they in?



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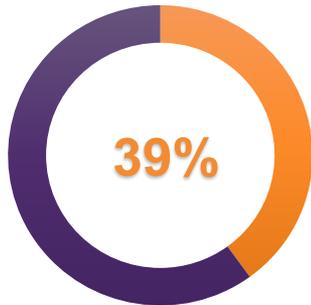
Other
14%

Startups – Which type of business are they?

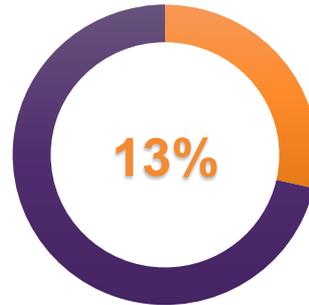


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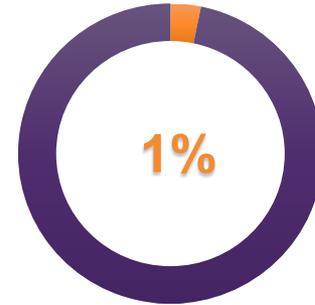
B2B (Small)



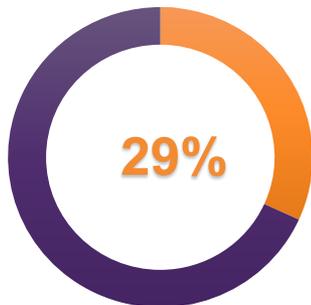
B2B (Large)



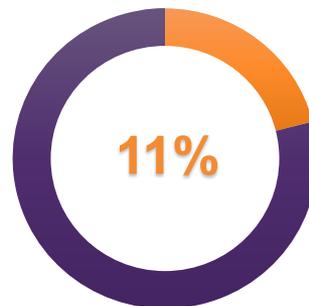
B2G



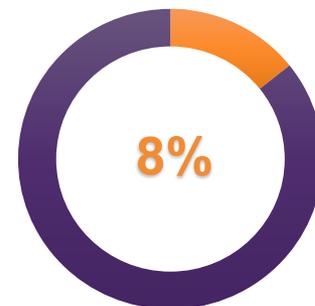
B2C



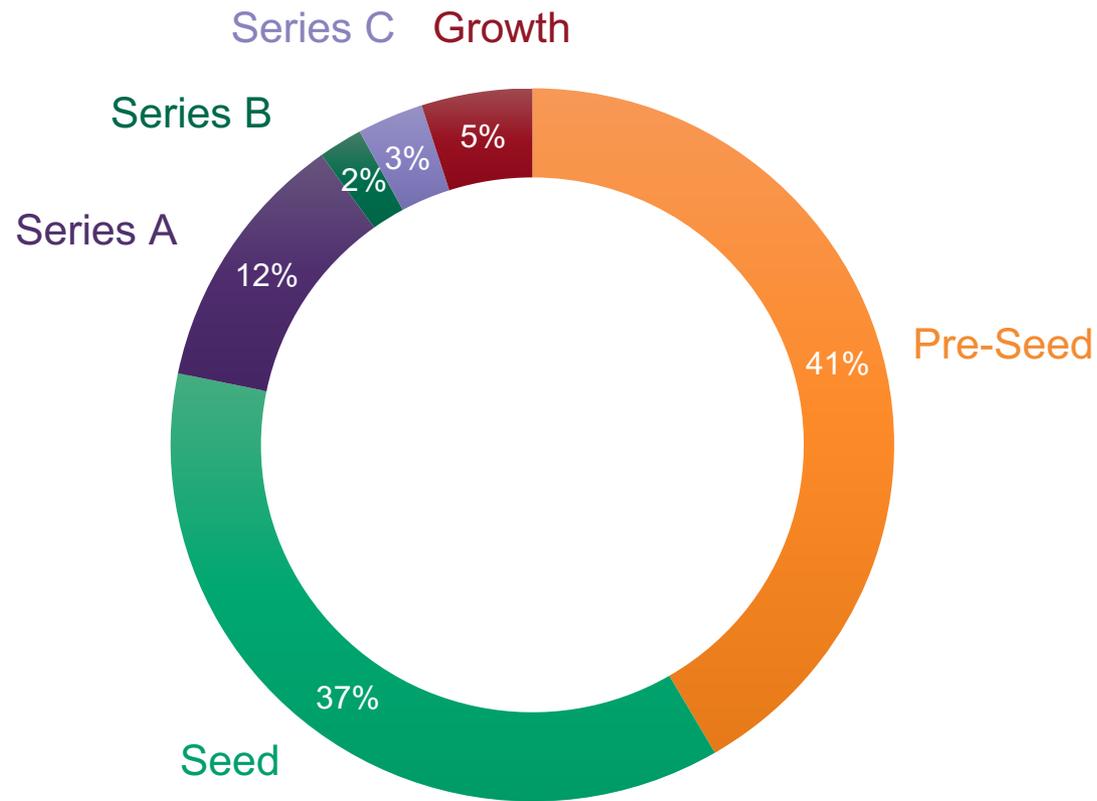
Marketplace



Other



Startups – Which stage of funding are they?





MACRO- ECONOMIC SENTIMENT

Macro-economic sentiment – Key insights

INSEAD

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19%

Startups, and in particular late-stage ventures, are more downbeat than investors – with **19%** of founders being very worried

3.8

Across the region, ventures in Saudi Arabia are the most concerned, with the highest worry sentiment index of **3.8/5.0**, followed by ventures in Lebanon (**3.5**)

24%

Founders have the most pessimistic outlook on MENA, with **24%** of startups expecting a depression

75%

In contrast, the majority of investors (**75%**) forecast a recession

Q2-21

Overall, both founders and investors anticipate a lasting impact of the crisis, with almost a quarter of founders expecting the crisis to not be over before the fall of 2021

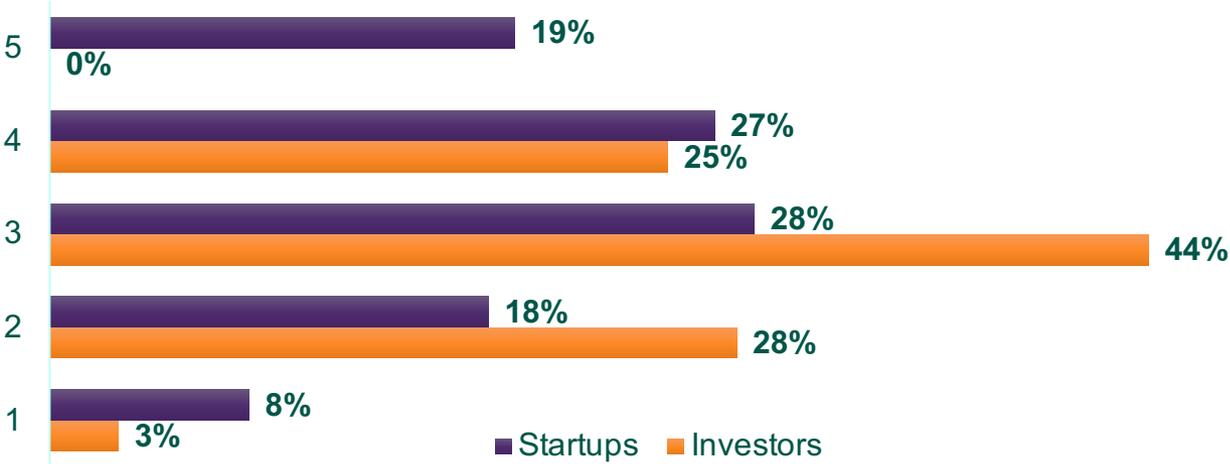


Startup founders are more worried than investors about the impact of the COVID-19 crisis



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Level of Concern About the Economic Situation



Startup Sentiment Index



Investor Sentiment Index

(1= Not worried at all to 5= Very worried)

Startups surveyed from Saudi Arabia and later-stage ventures across MENA are the most worried

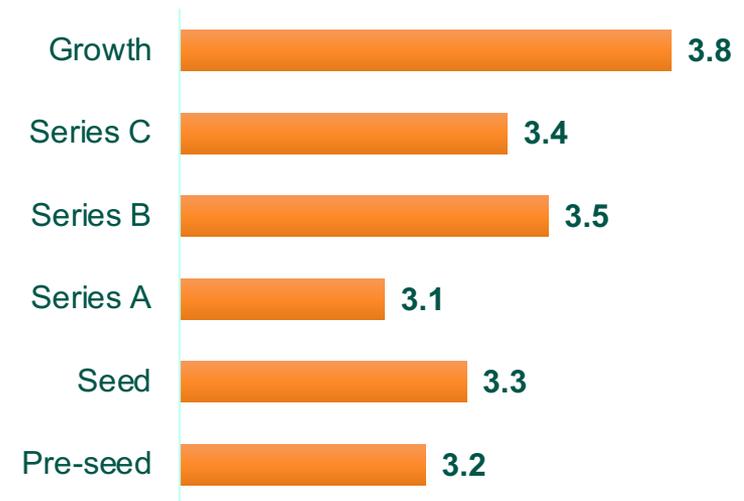


- **3.6** – sentiment of later-stage startups (B, C & Growth); **3.2** – of early-stage startups
- Saudi Arabia ranks the highest by the sentiment index, Egypt the lowest

Sentiment Index by Country



Sentiment Index by Stage



(1= Not worried at all to 5= Very worried)

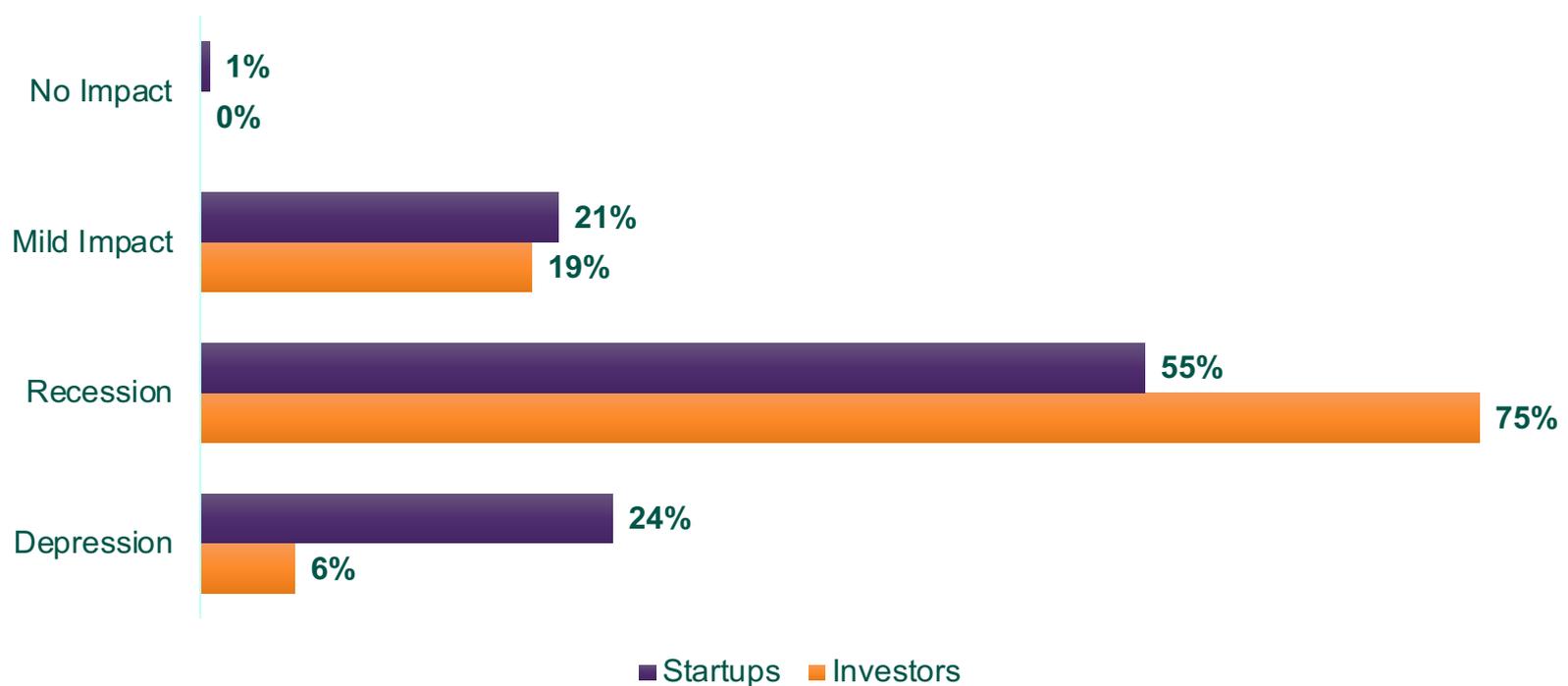
Startups expect COVID-19 to have a severe economic impact on the MENA economy



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- 24% of founders believe the region will head into a depression
- 75% of investors expect the region to face a recession

Expected Economic Impact of COVID-19



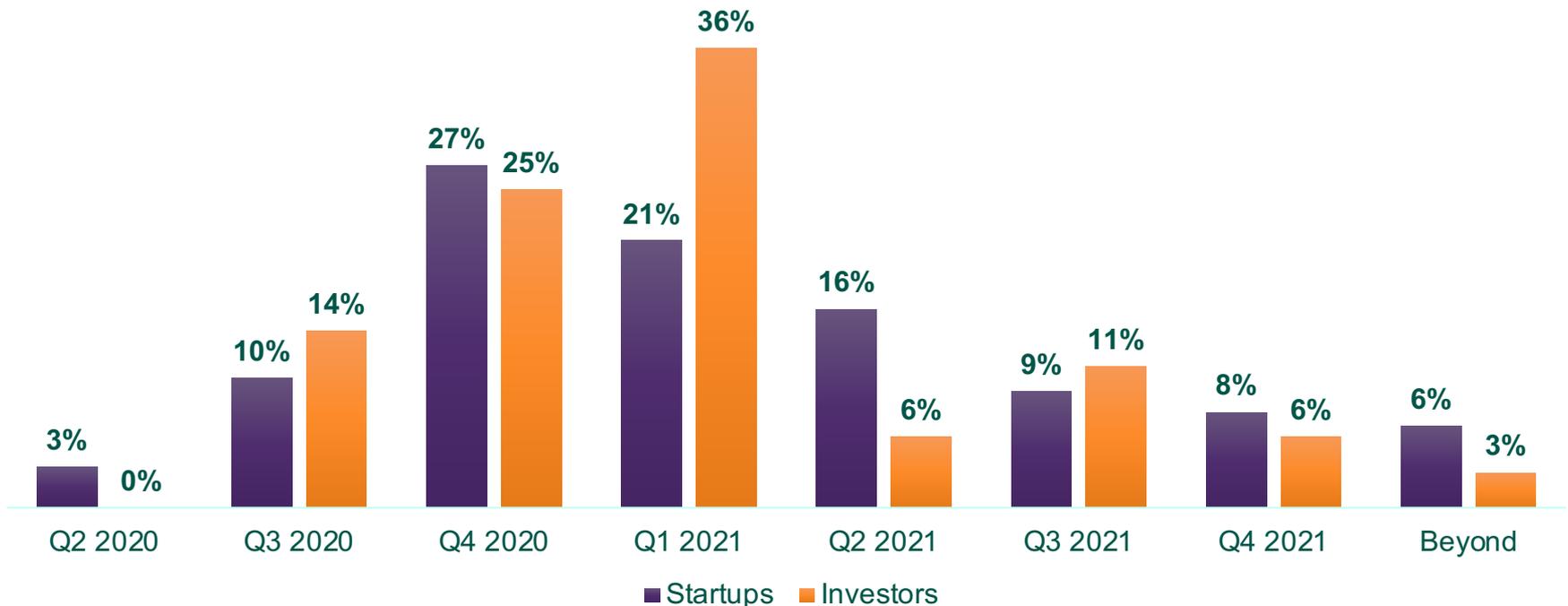
Survey participants expect the COVID-19 crisis to end at some point between Q4 2020 and Q1 2021

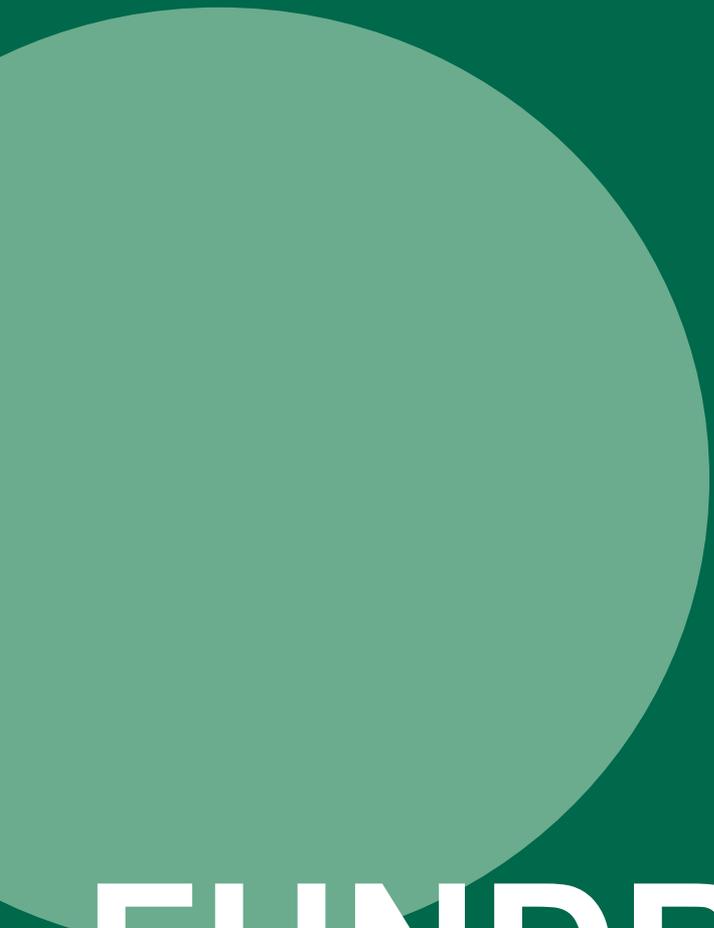


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- 61% of founders & 48% of investors expect the crisis to end between Q4 '20 & Q1 '21
- 14% of founders & 9% of investors expect the crisis to end in Q4 '21 or beyond

Time Horizon Until End of Crisis





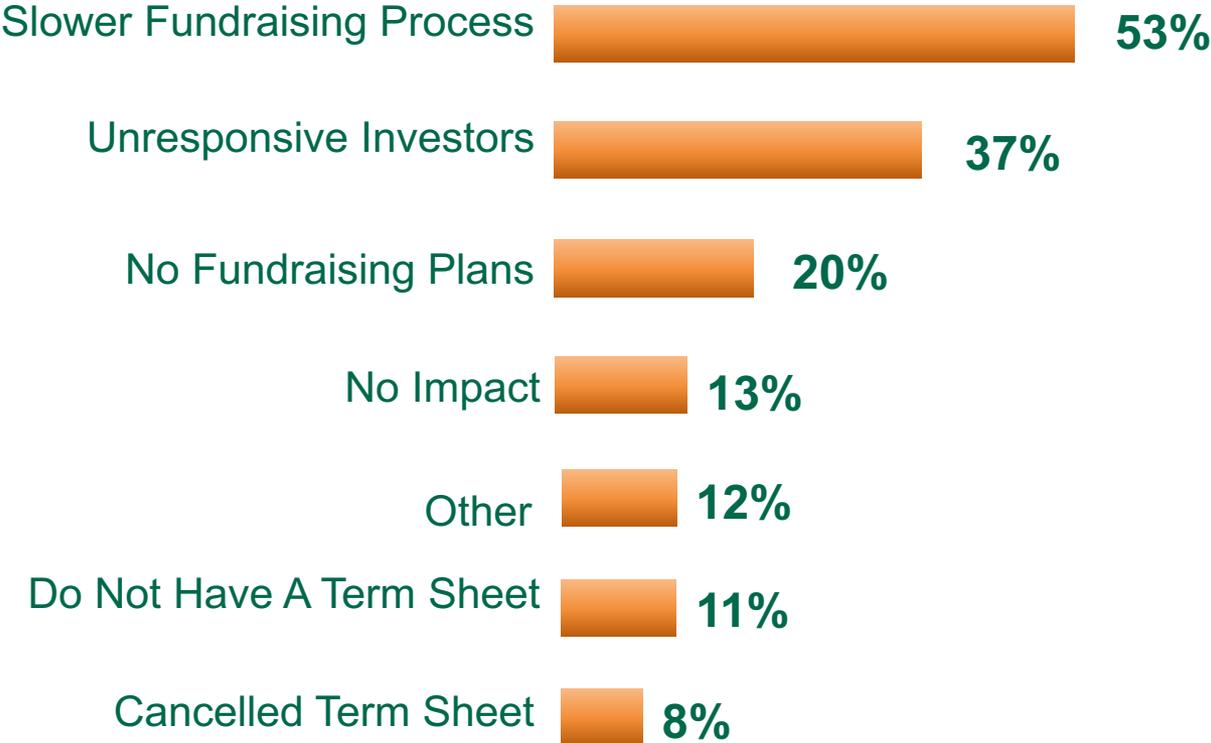
FUNDRAISING

53% of founders point to a slower pace of fundraising for the remainder of 2020



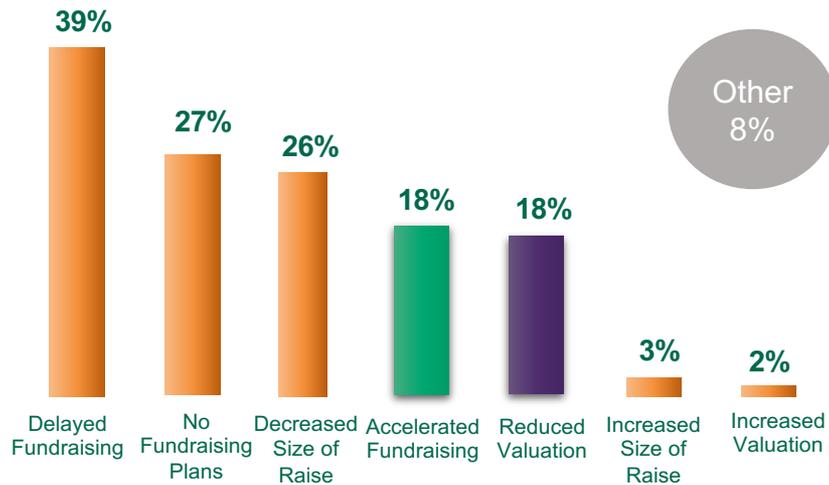
- 37% of founders face unresponsive investors
- 8% saw their term sheet cancelled

Direct Impact of COVID-19 on Startups' Fundraising Plans for 2020



Fintech and ICT ventures accelerated fundraising, while retail, transportation, and entertainment ventures saw reduced valuations

Startups' Response to Fundraising Challenges

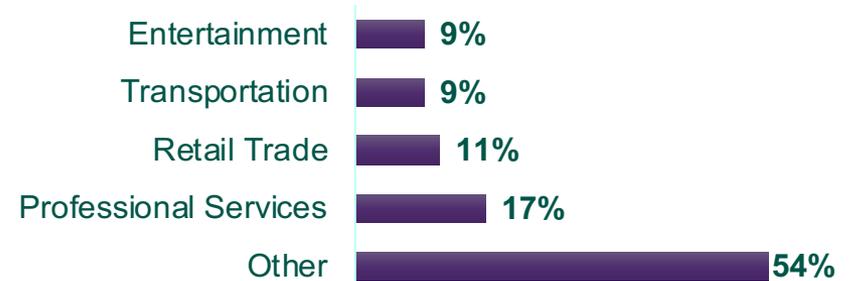


- **Accelerated fundraising: 18%** accelerated their fundraising, with Fintech ventures accelerating the most, followed by Education and ICT
- **Delayed fundraising: 39%** decided to delay additional fundraising
- **Lower valuations:** B2B professional services reduced valuations the most
- **Lower amount to raise:** Over a quarter (**26%**) decreased the size of the raise

Startups Accelerating Fundraising, % Split



Startups Experiencing Reduced Valuations, % Split



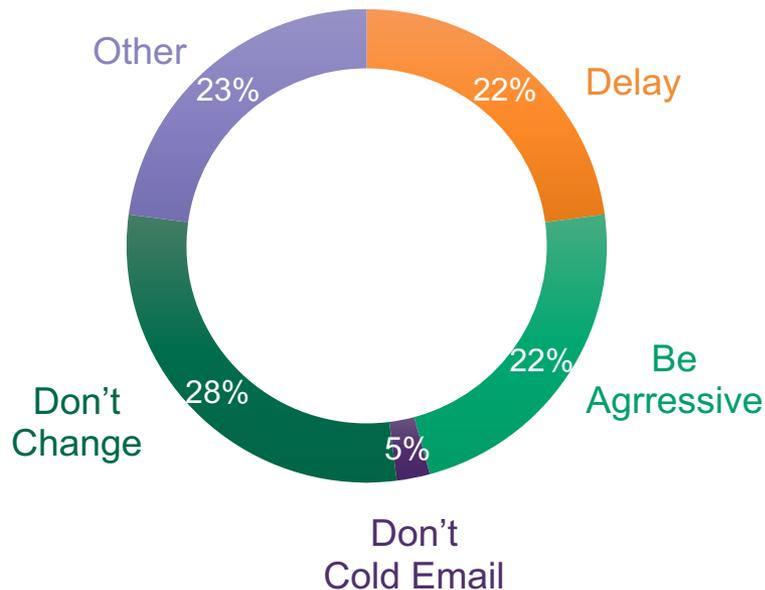
Investors' opinions differ with regard to fundraising



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- 22% advise founders to delay fundraising
- 22% suggest taking a more aggressive approach

Fundraising Outreach: Investors' Advice to Founders



Be objective and focus on strategic investors. If cashflow and capex are manageable, then fundraising shall be delayed to avoid messing up with valuations.

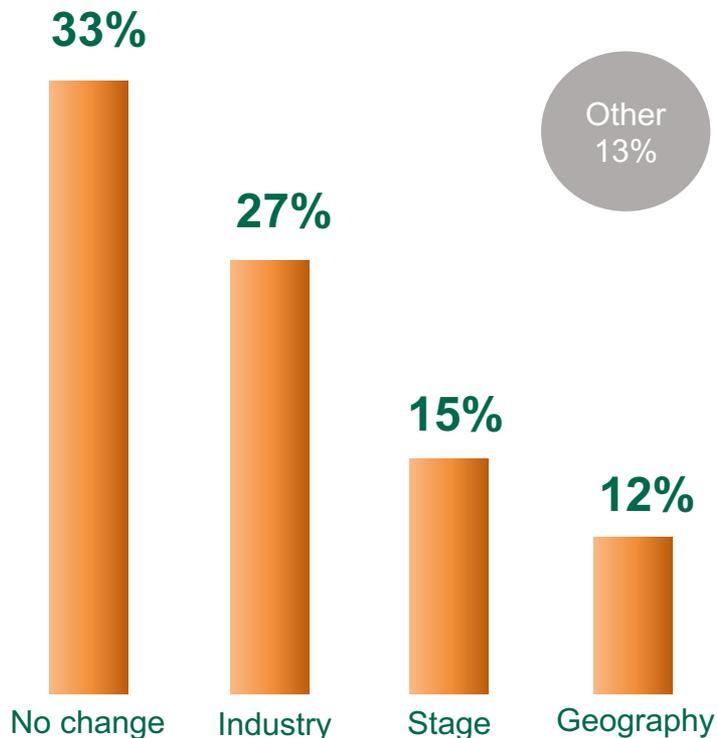
If startups have strong traction or benefit from the COVID-19 situation, then founders shall be assertive, with clear market penetration and growth plans.

Investors' focus shifts toward positively impacted industries, as well as later-stage companies



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Change in Investment Mandate



- **Industry:** the main shift is toward industries that saw a positive impact due to COVID-19 (Healthcare, FinTech, EdTech)
- **Stage:** the majority are shifting toward later-stage ventures, or are supporting their portfolios
- **Geography:** geographic focus remains relatively unchanged, with a few allocating funds to new market entries for portfolio startups
- **Other:** The most important shift registered was in VCs doubling down on portfolio companies, turning their attention to later-stage startups; some firms indicated that they executed more deals with partner VCs

Investment sentiment change in response to COVID-19



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We are shifting to Biotech, Fintech, and other emerging technologies, as well as logistics

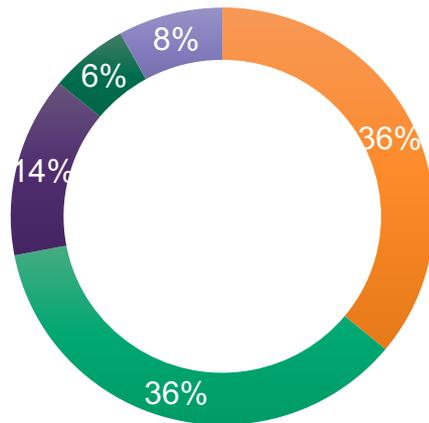
We're looking to expand beyond our original focus due to expected changes in consumer and business behaviours

Appetite for new investments declines across all geographies, while exits are delayed

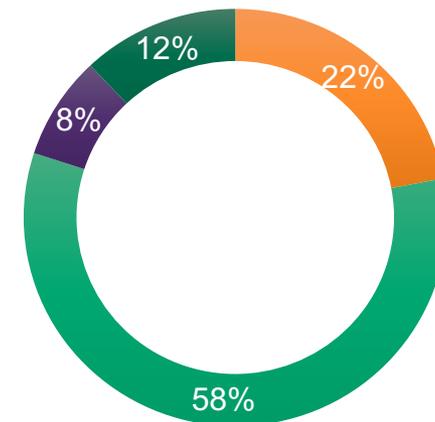


- **New investments:** 72% allocate less than \$3M in funds to new startups in 2020
- **Dry powder:** \$560M of disclosed dry powder is available, \$25.3M per fund on average
- **Exits:** 58% delay exits due to COVID-19, while over 20% stick to exit plans and 8% advance it

Capital Allocation to New Investments in 2020



Effect of COVID-19 on Investors' Exit Strategy



■ <\$1M ■ \$1M - \$3M ■ \$3M - \$5M ■ \$5M - \$10M ■ \$10M +

■ No change ■ Delay exit ■ Advance exist ■ Other

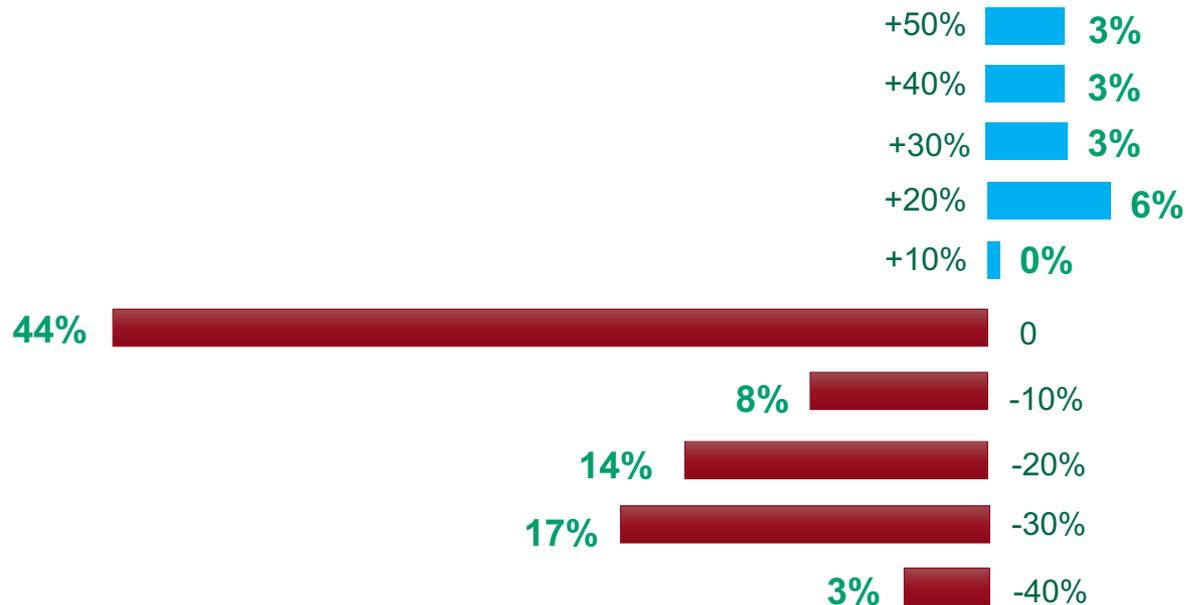
Lower valuations affect 42% of startups in investors' portfolios



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- 44% do not expect change in valuations
- 42% saw valuations decrease by 10% or more
- 15% saw valuations increase by over 20%

Level of Valuation Change of Investors' Portfolio Companies





STARTUP CHALLENGES

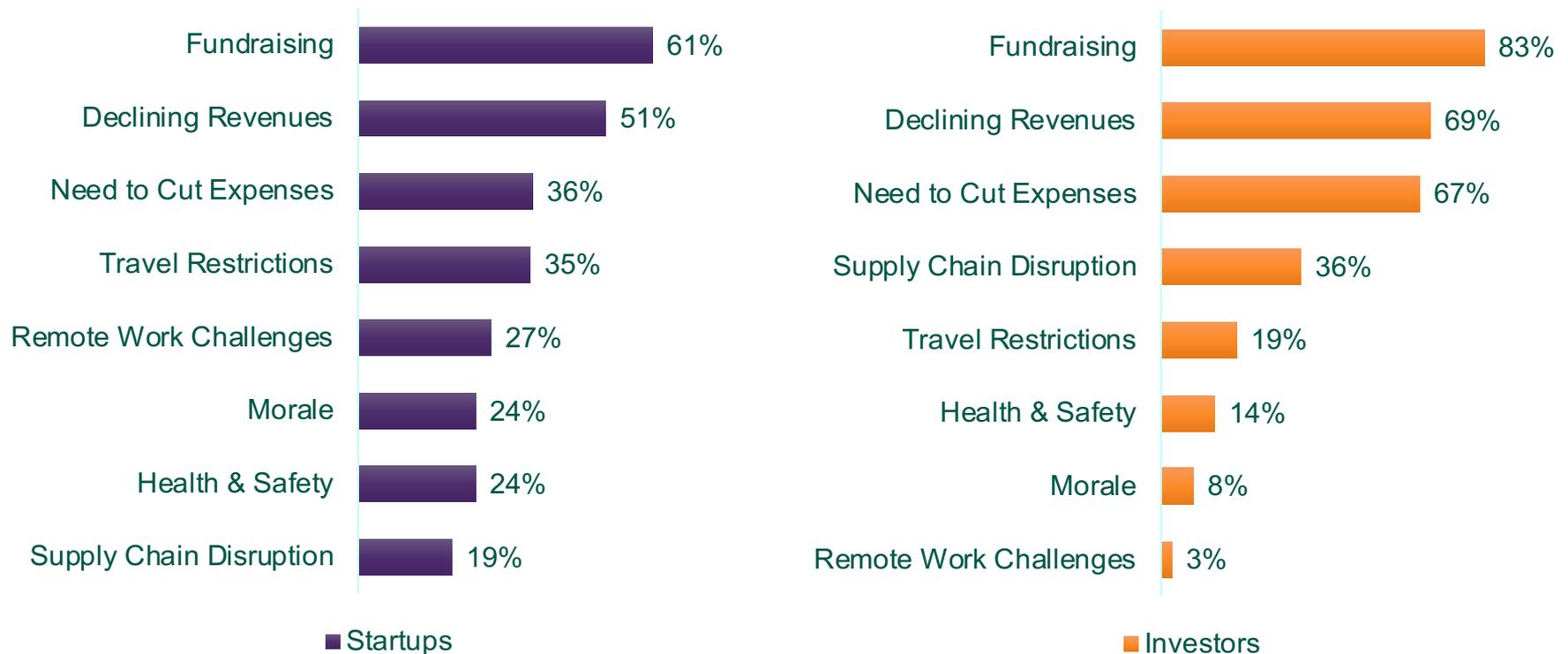
Cash-related issues are the most challenging for technology ventures



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- Fundraising (**61%**) and revenue decline (**51%**) preoccupy over half of founders
- Health and safety are of concern to just about a quarter of startups (**24%**)
- Investors indicate that fundraising (**83%**), declining revenues (**69%**), and the need to cut expenses (**67%**) challenge their portfolio companies the most

Top Challenges Brought by COVID-19



In response, startups have adapted their value propositions and business models



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Top Anti-Crisis Measures, Taken by Startups



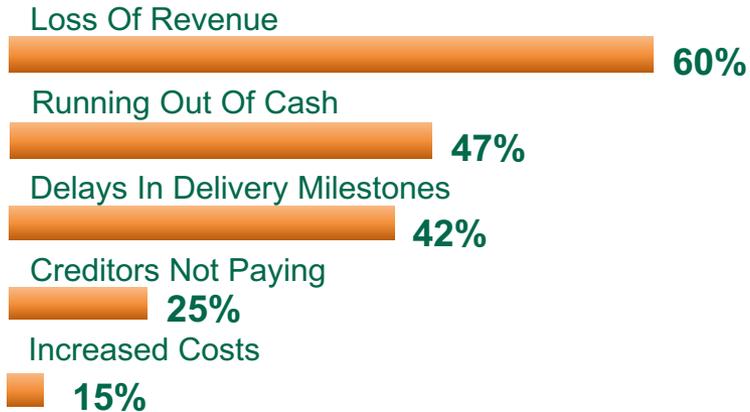
- **Change of strategy:** Changing business models (45%) as well as changing products and services (40%) were the most common responses, reflecting the need of technology ventures to adjust their value proposition and adapt to shifts in demand and supply
- **Layoffs:** Only 15% of startups had to lay off staff
- **Compensation challenges:** Managing the workforce with salary cuts (78%), hiring freezes (64%), and layoffs (39%) were the most common responses to cashflow challenges in portfolio companies

Revenue levels fluctuate, with clear losers and winners from COVID-19

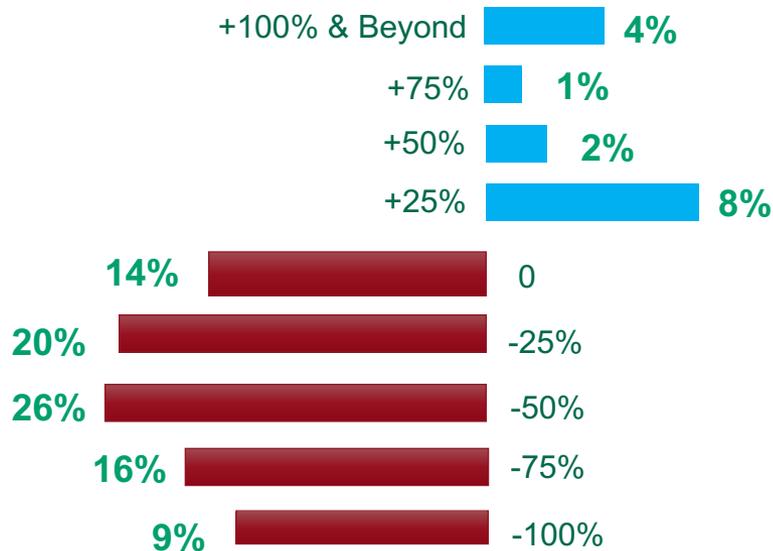


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Effects on Financial Situation, Caused by COVID-19



Revenue Projection Change, %

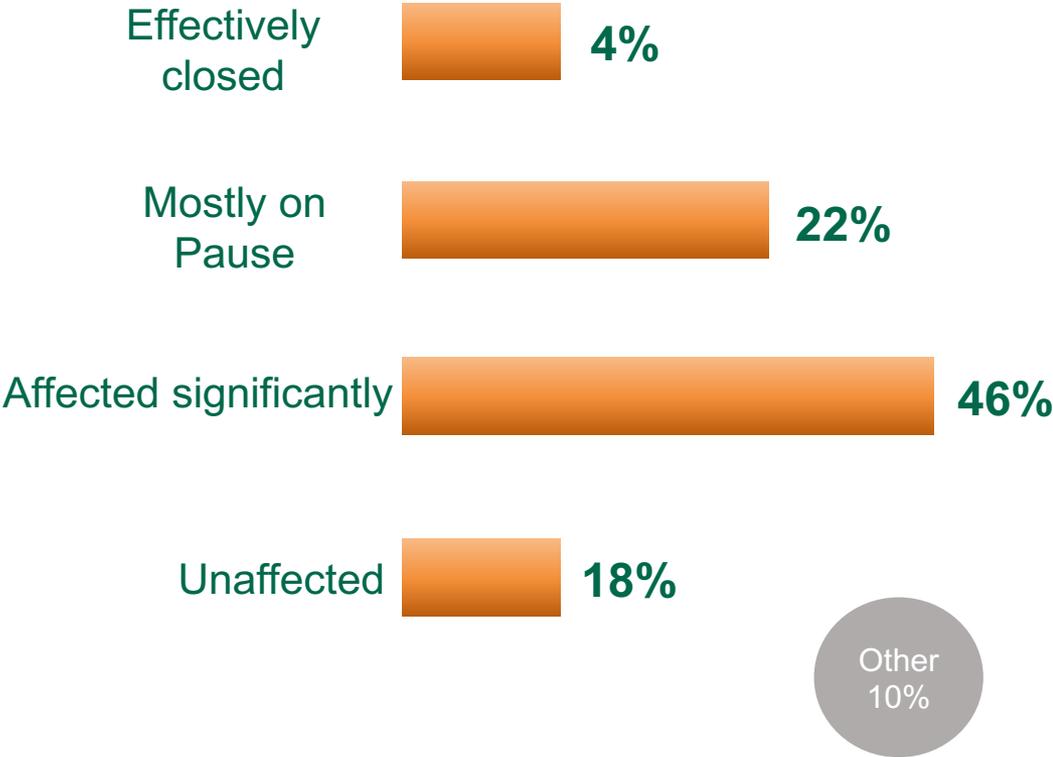


- **Cash flow challenges:** Revenue decrease (60%) and a subsequent lack of cash (47%) preoccupy most founders. 42% are unable to stick to projected business plans due to disrupted operations
- **Predicted revenue drop:** 71% face a revenue drop, with companies from professional services (B2B), fintech, entertainment, and recreation being the most impacted
- **Predicted revenue increase:** 8% report an increase in revenue by 25%; 4% (primarily retail, ICT, and healthcare) over a doubling of their sales

The impact on operations reflects a shift in demand toward remote services, as well as a general slow-down of the B2B sector



Impact on Startup Operations, %

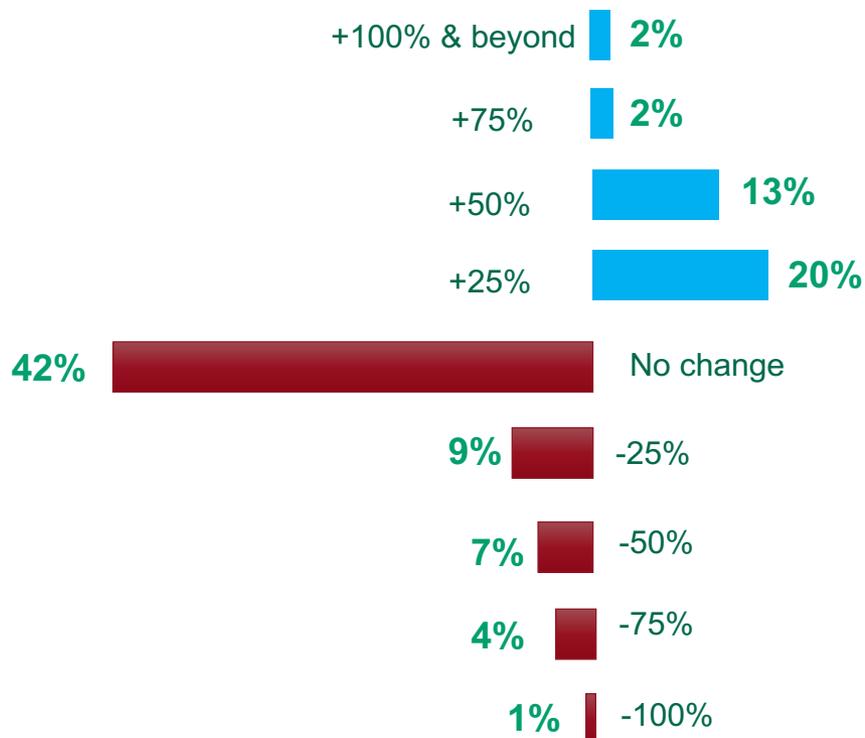


- **Operational impact:** Almost half report a significant impact of COVID-19 on operations (46%); 22% put their operations on hold
- **Those unaffected:** A significant share of ICT, EdTech and Fintech startups report being unaffected by the crisis (18%)
- **Close-up shop:** 4% closed their operations, mostly those in advanced manufacturing and professional B2B services

Preserving talent remains a priority for startups, with no massive layoffs projected



Projection of Increase or Decrease in Staff, %



- **Managing talent:** In spite of COVID-19, **42%** have no plan to lay off staff; **20%** plan to increase their workforce by **25%**
- **Most impacted:** Most layoffs (**75% and above**) are expected in Transportation and Professional Services
- **Some startups are hiring:** Fintech and Healthcare ventures indicate the largest increase in workforce (**+100%**)

Disruption of operations



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Operations were impacted in supply chain with inflation of some costs in PPE (personal protective equipment) and transportation

As a B2B SaaS company, we are blessed that we still have revenues coming in regularly. But we lost clients, and some asked to pause their subscriptions, as most are retailers and new sales have been challenging



GOVERNMENT SUPPORT

Startups across MENA are not significantly reliant on government support

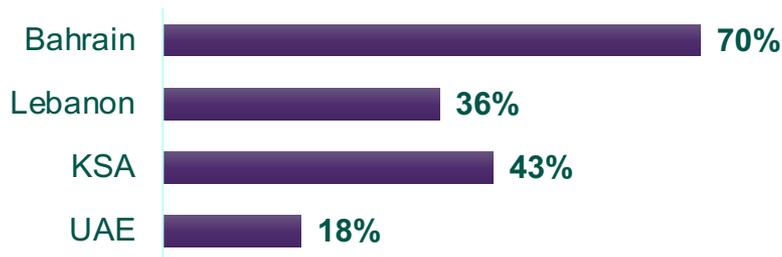


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Top 4 Countries – No Support
% Response Per Country



Top 4 Countries – With Support
% Response Per Country



- **Government support:** The majority (77%) did not resort to government support policies
- **Where was the help:** The majority of founders who indicated using government-related policies come from the UAE, Saudi Arabia, Lebanon, and Bahrain



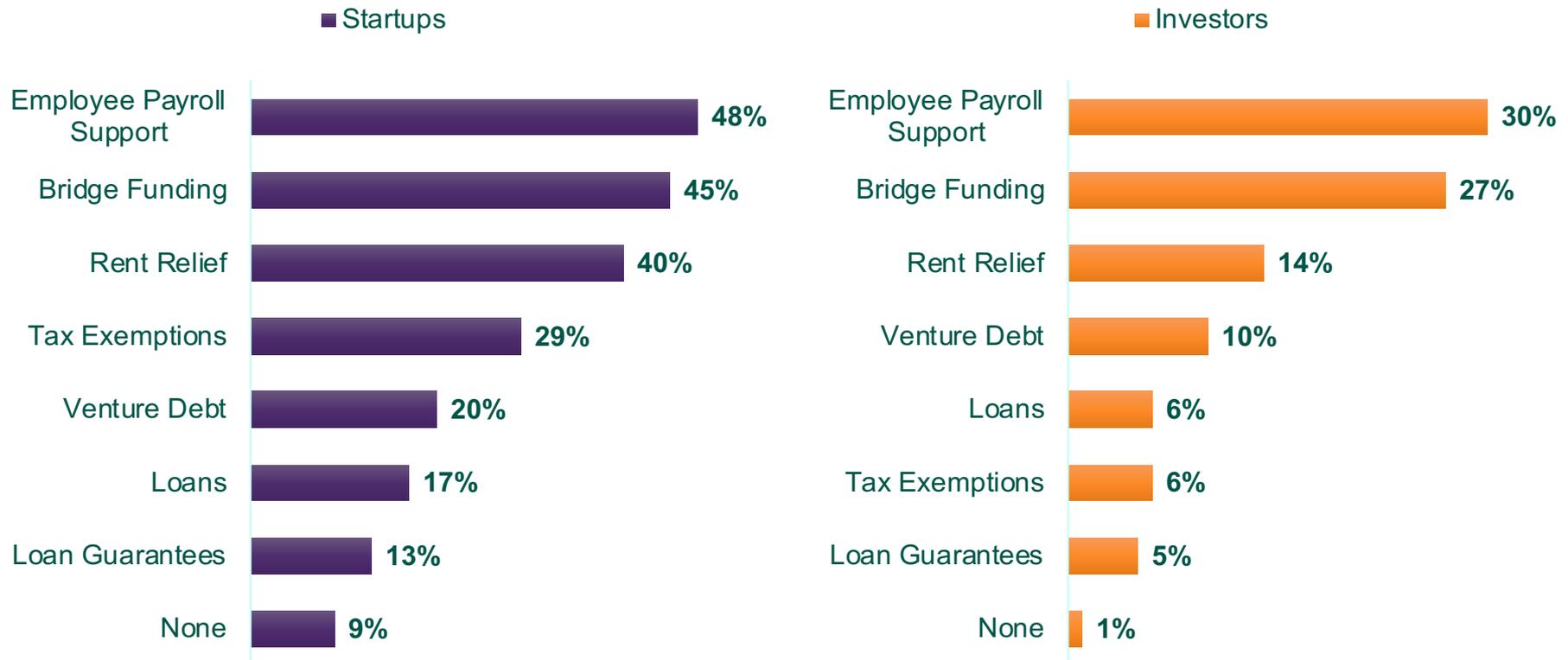
Startups supported by existing policies

Cash management solutions and policies are what respondents ask for most



- **Staff payroll:** In response to a decrease in revenue, both investors and founders expect the government to assist with employee payroll support as the most important
- **Cashflow support:** Other areas involve cash management solutions including bridge funding and rent relief, in order to tackle cash flow and liquidity issues

Support Measures Needed To Help Startups Deal With COVID-19



Government support – startups from the UAE



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Dubai government guarantees paying invoices within 15 days. We've been able to rely on payments and have received them on time from government clients, while other market clients delay payment

Bank loan deferrals, lower utility and licensing costs; covering full pay to support people in quarantine and isolation



Government support – startups from Saudi Arabia



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Cash flow is our biggest issue and we would like more support in this regard

The government delayed or cancelled some taxes and fees; SANED by GOSI of Saudi Arabia is currently covering a portion of Saudi employees' salaries



Short-Term: Cashflow-Related Support

- 1 With lower revenue, startups should be supported with measures that help reduce fixed and operating costs: office rent relief, putting on hold utility services, and delaying license fees
- 2 Employee-support measures should be implemented in order to preserve talent in the region: offering living costs discounts, or partial coverage of salaries
- 3 With reduced access to VC funding, loan and loan guarantee support should help ventures manage the short-term cash shortage

Long-Term: Investment Confidence Enhancement

- 1 As uncertainty lowers investor confidence, governments should signal to the market their support by investing directly in startups
- 2 New funding mechanisms such as bridge funding, venture debt, or convertible notes should be put in place to provide startups with liquidity in the medium term
- 3 A creation of a fund-of-funds to inject capital into the ecosystem should be considered to help VC firms stabilize the market

About MAGNiTT



MAGNiTT

MAGNiTT, MENA's most comprehensive startup data platform, is built on four core products:

1. **Community**, an online portal connecting startups with investors
2. **Data**, the MENA region's database for venture investments and funding trends
3. **News**, keeping subscribers up to date with everything new & noteworthy across the startup ecosystem
4. **Research**, venture reports which are the reference for leading publications such as the Financial Times, Bloomberg, and TechCrunch.

MAGNiTT is on a mission to empower, inform, and connect startup ecosystems in emerging markets.

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About INSEAD



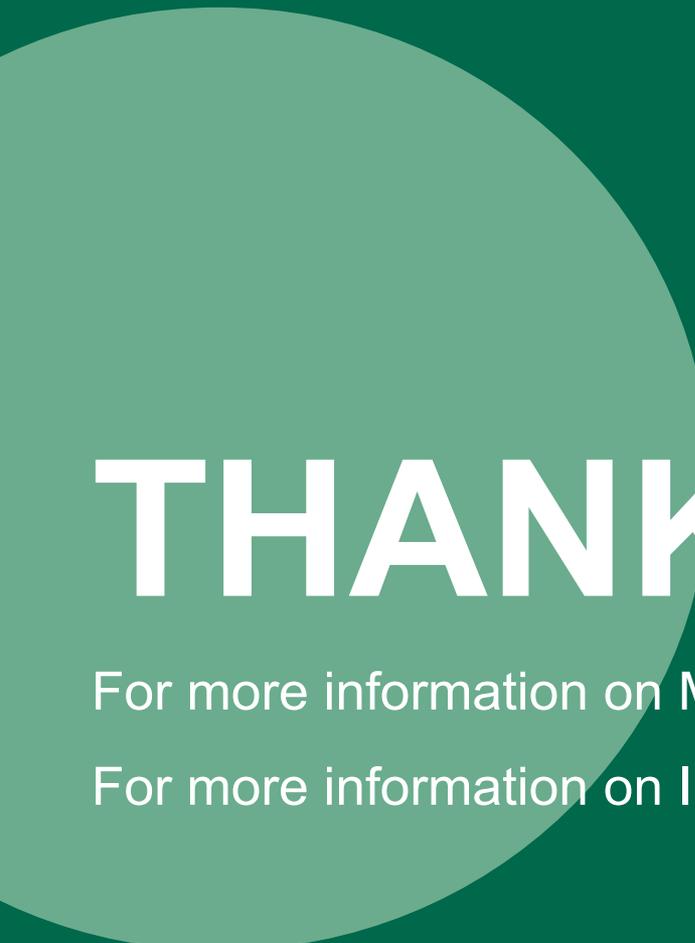
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As one of the world's leading and largest graduate business schools, INSEAD brings together people, cultures and ideas to develop responsible leaders who transform business and society. Our research, teaching and partnerships reflect this global perspective and cultural diversity.

With locations in Europe (France), Asia (Singapore) and the Middle East (Abu Dhabi), and now North America (San Francisco), INSEAD's business education and research spans four regions. Our 165 renowned Faculty members from 41 countries inspire more than 1,300 degree participants annually in our MBA, Global Executive MBA, Specialised Master's degrees (Executive Master in Finance, Executive Master in Change) and PhD programmes. In addition, more than 11,000 executives participate in INSEAD Executive Education programmes each year.

INSEAD continues to conduct cutting-edge research and innovate across all our programmes. We provide business leaders with the knowledge and awareness to operate anywhere. Our core values drive academic excellence and serve the global community as The Business School for the World.

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