A third of EU startups are vulnerable to the COVID-19 crisis

EuropeanStartups.co, a new initiative supported by the European Commission to provide macro-level intelligence about Europe's startup economy reveals the impact that the coronavirus pandemic is having on the early-stage tech ecosystem across the trading bloc.

Temps de lecture : minute

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Startups from Lisbon to Stockholm and Dublin to Budapest, have been rocked by the current crisis and are facing a a very real threat to their survival. Insight into the impact of COVID-19 on the European early-stage tech sector have been published to coincide with the launch of European Startups, a project aimed at propelling Europe's startup economy to the next level through online data, research and events.

The project's inaugural report, *"What does it take? How can Europe's startup ecosystem recover from the current crisis"*, looks at how ecosystems will be able to withstand this unprecedented crisis, which is threatening hundreds of thousands of jobs across the 27 European countries.

> *"In just three weeks Europe has effectively shut down much of the infrastructure that it has taken for granted for decades. This change is both destroying traditional business models and creating new opportunities, often for emerging*

> *tech companies. Right now we need to identify the opportunities for and correctly understand the threats to European startups so that we can create policy and make decisions that help to continue the progress that has been made in recent years to create a healthy, ambitious tech sector across the EU-27. Fortunately, the European tech ecosystem faces this crisis from a position of strength, having raised record levels of capital in 2019 and demonstrated strong levels of growth. The coming months will be a huge challenge to the startup sector, but it is more than capable of rising to it." - Pēteris Zilgalvis, Head of Unit for Digital Innovation and Blockchain in the Digital Single Market Directorate and Co-Chair of the European Commission FinTech Task Force*

A third of startups are 'vulnerable' to the current crisis

Europe has made huge leaps in consolidating a strong and ambitious tech sector recently. Over 100 venture-backed companies have reached a $1B valuation and founders have global ambitions, as proven by the successful exits and IPOs of companies including Adyen, Spotify and Farfetch. In 2019, European startups, including those in the UK, raised €38.8B in venture capital, up 42.6% on 2018's €27.2B.

Looking at 18,000 of European venture capital-backed companies we can see that the businesses fall into one of four categories:

- Those for whom the crisis is net positive (food delivery, healthtech, logistics and collaboration tools including video conferencing),
- Those for whom it is defensible (frontier tech, gaming, streaming, martech and fintech companies),
- Those who are vulnerable (lending, proptech and fashion tech),
- Those who are most affected (travel tech and mobility).

Dealroom.co estimates that one third (6,000) of European tech companies fall into the most affected and vulnerable category, while roughly half (8,600) will fall into the defensible category and a fifth (2,600) are likely to see net benefits.

The challenges for each category are starkly different. Companies for whom the crisis is net positive will also have to manage rapid growth and respond effectively to surging levels of demand while maintaining supply chains, customer satisfaction and company culture.

For the majority of companies in the middle category, there will be operational challenges, a shrinking lead pipeline, heightened cash awareness and constant runway worries. In the most affected category (14%) companies could see revenue fall to zero and face immediate collapse.

Valuations have fallen

It is vital to remember that even in a normal business environment, more startups fail than succeed. While listed tech companies have seen their values fall, sometimes by as much as 30 to 40%, startup valuation is likely to see reduction.

The high failure rate of startups means it is vital to make sure that any government support for the sector is targeted at those companies that would, in usual circumstances, have a strong chance of succeeding.

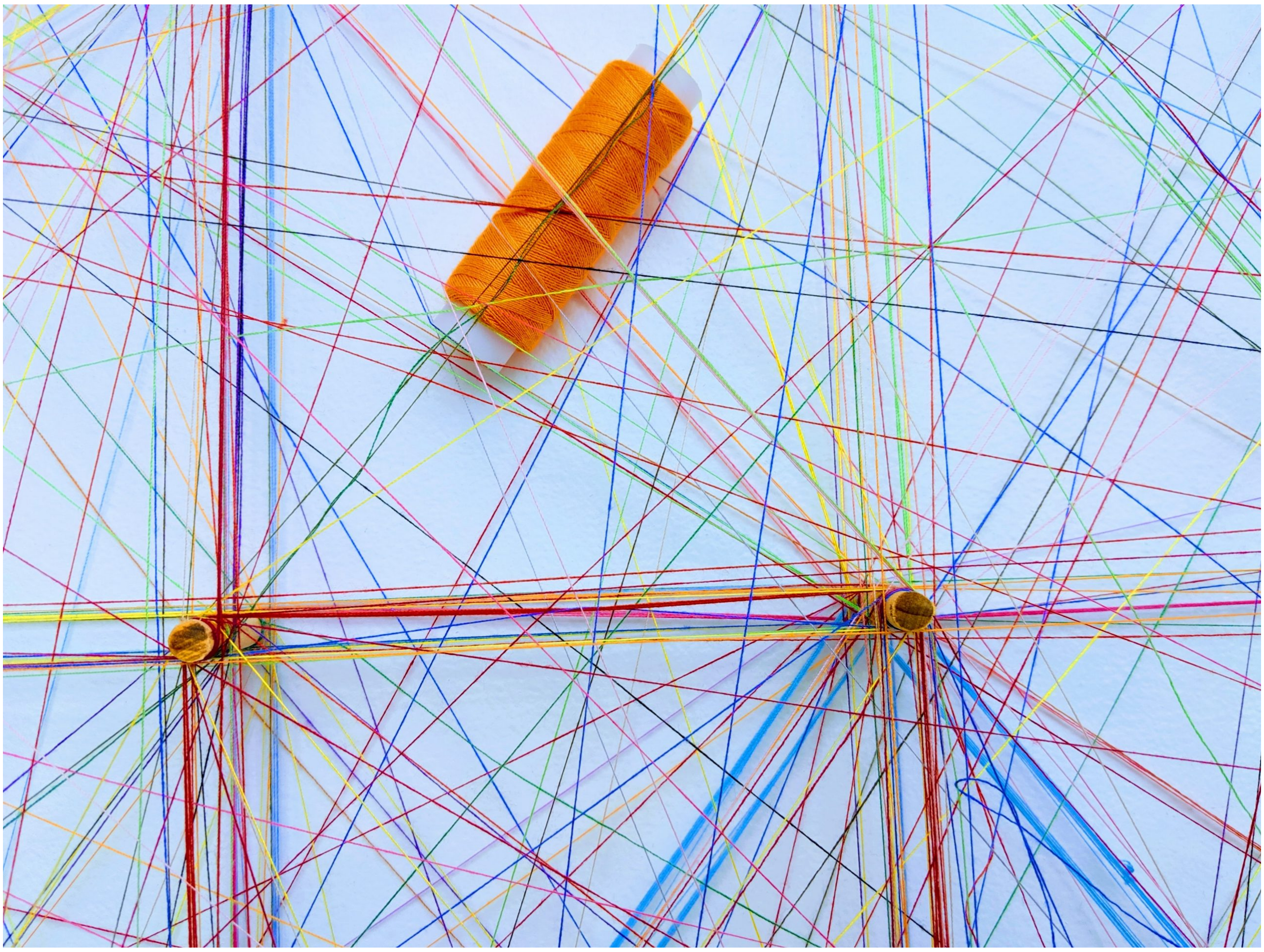
Jobs by country/city

The fate of the European startup sector, which saw record levels of venture capital investment in 2019, matters because these fast-growing early-stage businesses are Europe’s number one growth engine for jobs, as well as providing a pipeline of companies capable of growing into global tech brands in years to come.

Startups across Europe provided approximately 2 million jobs in 2019 and are adding more new jobs each year than any other sector.

London has the greatest population working in startups (290,000) but Paris has around 100,000 employed in the sector and Berlin has 78,000. Cities like Amsterdam have 48 startup jobs per 1,000 inhabitants, while Stockholm has 38 per 1,000 inhabitants.

Right across the EU, job creation in the tech sector was growing more than 10% per year until the end of the first quarter of 2020.



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Starting from a position of strength

The European tech sector has seen escalating investment over the last five years. Risk appetite had started to match that seen in other regions, notably the US.

Since 2013, there has been €223B worth of venture capital-backed exits, which has also helped to create a profitable and sustainable ecosystem and give venture capital firms more confidence in Europe’s tech sector.

This resulted in greater availability of European capital than ever before, with more US and Asian investors active in Europe (including SoftBank, Temasek, Sequoia and Insight Partners), greater appetite from corporate investors, both international and European and increased government support.

As the European ecosystem matured, there were more mega-rounds, leading to a winner-takes-all approach from some investors. This, in turn, led to a war for talent, which pushed up salaries. Northvolt saw Europe's first $1B investment round in 2019, and companies including Deliveroo, Greensill, Babylon and Veeam all raised rounds in excess of half a billion dollars each.

Dealroom data shows that venture capital funds made fewer investments in March, but with €2B invested this was not exceptionally low. Further clarity around the impact of the pandemic on venture capital investment will become clearer in subsequent months.

Successful companies can come from anywhere

Since the year 2000, Europe has produced 200 unicorns or private companies with a valuation of at least $1B, from no fewer than 18 countries. There are over 300 emerging European future unicorns. The spread of successful companies proves that market-leading businesses can come from anywhere.

A light at the end of the tunnel

While it is inevitable that some will calculate the coronavirus outbreak in terms of lost revenue, uncertainty and lower valuations, it is also a boon for online companies and is accelerating the ongoing digital and omnichannel shift that has been happening in recent years. This presents huge opportunities for tech founders and startups to help enable this shift while providing an impetus for legacy industries to prioritise digital transformation.

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