

# COVID-19

## The Startup Guide to Fundraising During Crisis

global.ventures

## INTRODUCTION

Irrespective of when the COVID-19 health threat subsides, the reality is that it has triggered an economic downturn reminiscent of the 2001 DOT COM bubble burst and the 2008 Financial crisis, if not worse. This is already manifesting in the trillions of dollars lost in global markets, record unemployment rates, and all-time low oil prices - all of which indicate that the recovery will take time; possibly at least 18-24 months, which startups need to proactively plan for.

This new economic reality makes fundraising, an already difficult task, exponentially more challenging for startups.

As young companies begin to think about raising further capital, a few points should be kept in mind:

- 1) The current climate initiated significant and irreversible changes in customer behaviors in ways that will accelerate technology adoption at unprecedented levels. This creates a huge opportunity for Tech Startups / emerging technologies to capitalize on, including E-commerce, Video Communication, Gaming, EdTech, HealthTech, FinTech to name a few.
- 2) It's important to note that one of the most important determinants of whether or not the start-up will survive the current crisis is the **founders' mindset** and their ability to embrace the fact that this is **not only about limiting their challenges** but **challenging their limits**.

So yes, there is light at the end of the tunnel, and while it's advisable to avoid fundraising during the current climate, negative cashflow is an inherent fact for many venture-backed startups, and raising capital is mission-critical for business continuity.

**This guide provides founders with some tips to consider while fundraising during the COVID-19 era.**

## 1. EMBRACE THE NEW NORM

Just as it's not practical to expect that your business will maintain the same momentum it had only 2 months ago, it's also not practical to expect the same valuation road map you had in mind before the crisis.

This is the time to take a pragmatic look at your business, the new market reality and to calibrate your expectations. It's important that you don't get weary and overwhelmed by negative feelings of forced compromise, and that you understand that it simply means that it will take you a bit longer to get to where you wanted to be.

**Focus on the long-term!**

## 2. LOOK WITHIN

Before raising money, and in order to define your actual cash requirements, you need to implement stringent cash conservation measures. This is important for a couple of reasons:

- 1) **Quantifying the problem:** you may be pleasantly surprised that the problem is not as big as it seems.
- 2) **Investor (current or new) confidence:** this demonstrates that you've done your homework and running a tight ship.

Actions to consider:

- Freeze non-essential **expenses** (travel, hiring, training etc.)
- Delay new **investments** and market expansion
- Re-negotiate supplier **payment terms**
- Review 3<sup>rd</sup> party **contractual commitments** and exit where possible
- Discount customer **long-term** contracts / memberships to bring cash forward
- Focus on "**quick-win**" revenue opportunities.

### 3. THINK IN SMALLER BITE SIZES

Now that you've identified your capital requirements, it's worth considering breaking it up into smaller bite sizes of **3** months + **6** months + **12** months so you can:

- 1) Simplify and accelerate the path to capital
- 2) Recalibrate your ask based on how the market evolves (negatively or positively)

### 4. NAVIGATE THE DEBT TOOLS BOX

Before giving up equity, make sure you've exhausted all your debt options. Examples include:

#### **Working Capital Financing**

Used to fund your company's investment in short-term assets such as accounts receivable and inventory, and to provide liquidity so that your company can fund its day-to-day operations including payroll, overhead and other expenses.

#### **Senior Term Loan**

Allows the borrower to receive the loan proceeds in stages during a 6-12 month interest-only period, and repay the loan over 24-30 equal monthly payments thereafter.

#### **Second Lien Term Loan**

Loan is repaid in regular payments over a set period of time. Similar to a senior term loan but with a second lien rather than first lien on collateral.

#### **Revenue-based Financing (RBF)**

Repayments are based on a percentage of the borrower's monthly revenue rather than a fixed amount. The payments fluctuate with financial performance.

In the absence of revenue, this loan / line of credit facility can be tied to your accounts receivable and/or inventory to provide a collateral base for the loan.

## **Mezzanine Financing (later stage)**

This is a hybrid of debt and equity that ranks below senior debt but above common stock in a capital structure and is usually structured as subordinated debt.

## **Government Subsidies**

Check your eligibility for government **bailout packages** and SME facilities that are being rolled out in the markets in which you operate. This may provide a fast and affordable quick fix.

# **5. UNDERSTAND YOUR AUDIENCE**

Now that you have decided to raise capital, it's critical that you put yourself in investors' shoes and understand what they are looking for. Things to consider:

## **Situational Assessment**

- 1) Assess current investors' mindset, appetites and priorities by geography
- 2) Appreciate the challenges they are facing, especially with current portfolio companies, but also know that they need to continue to deploy their funds
- 3) Calibrate your story to match their strategic priorities

## **Identify Your Target**

Don't go "shot gun" investor hunting - it's counterproductive in terms of time and resources. Do your research and create a shortlist of target investors starting with your **current investors** who already believe in your team and business and whose objectives and interests are aligned with yours.

## **Provide Reassurance**

This is especially important for new investors. The best way to do this is by getting existing investors to show commitment and willingness to help your company navigate this crisis irrespective of the absolute investment value.

## Make Realistic Assumptions

Be conservative and pragmatic with your assumptions, including:

- 1) Company valuation
- 2) Market conditions
- 3) Time to revenue
- 4) Burn rate and cash runway
- 5) Time required to close rounds

## Get Your Priorities Straight

This phase is about **survival** i.e. money in the bank. Be sure not to make the mistake of letting go of a “good enough” deal in pursuit of the “ideal” deal.

# 6. PITCH PERFECT

Your pre-crisis pitch can't be the same as your post-crisis pitch. Consider the following:

### It Starts with You!

Investors (including current investors) will be reassessing founders and their teams to gauge their fit to manage the current crisis.

A **wartime CEO** is very different from a **peacetime CEO** and in many cases may be different people. Accordingly, this becomes the **moment of truth** where founders need to ask themselves if they are ready for the task ahead. This is about having the:

- 1) **Right Attitude:** demonstrate your true leadership, resilience and adaptability.
- 2) **Right Skills:** reevaluate your leadership team and surround yourself with people who have complementary experience to yours.
- 3) **Right Company:** remember that companies are made greater by the company they keep. Seek out advisors who have weathered such storms before to guide you through this journey and get you ready for the pitch and beyond.

## Focus on Fundamentals

Investors now, more than ever, are laser focused on business model defensibility:

- **Reassure through realism:** share your business plan before/post the crisis and corresponding assumptions. This will give investors confidence that the plan is well thought through and more importantly demonstrates transparency
- **Align on multiple scenarios:** A lengthy runway serves as an insurance policy to investors that the company will survive the crisis. The chart below gives an indication as to how a company may ponder their strategic options

**Macro Scenarios (Outside Our Control)**

Potential Strategies (In Our Control)	<b>Scenario A</b> 3 months lockdown X% Revenue Loss	<b>Scenario B</b> 6 months lockdown Y% Revenue Loss	<b>Scenario C</b> 12 months lockdown Z% Revenue Loss
<b>Plan A</b> No change to plan	12 months runway \$XM cash EO2020	9 months runway \$XM cash EO2020	6 months runway \$XM cash EO2020
<b>Plan B</b> -15% Opex	18 months runway \$XM cash EO2020	12 months runway \$XM cash EO2020	9 months runway \$XM cash EO2020
<b>Plan C</b> -25% Opex	24 months runway \$XM cash EO2020	18 months runway \$XM cash EO2020	12 months runway \$XM cash EO2020

*\*Key: Columns represent drops in operational expenditures, rows revenue losses.*

*\*Source: A Sequoia-backed company*

*Source: <https://www.phocuswire.com/Travel-venture-funding-coronavirus>*

- **Demonstrate control of your cost base:** showcase the details of how your cost base was structured pre crisis and how you've restructured it post crisis:
  - Fixed vs variable costs
  - Overheads directly linked to revenue vs other overheads
  - Costs management plans / actions aligned to the above macro scenarios

## Stand Out or Be Out

The crisis will hit companies without a unique value proposition the hardest. This particularly applies to differentiation through underlying technology. Things to consider in your pitch:

- **Demonstrate customer understanding:** share insights about how customer behaviors are changing and how your value proposition caters to this new norm
- **Highlight technology capability:** Showcase your current product and how your development road map will evolve to cater to changing customer needs, thereby capitalizing on the opportunity and creating customer stickiness
- **Share a pivot strategy if necessary:** some industries and sectors will be hit harder than others during this crisis e.g. travel. The question here is whether or not you can leverage your underlying technology to service new industries, markets or opportunities?

## INVESTOR COMMUNITY THOUGHTS

**Chris Varelas, Founding Partner Riverwood Capital, Palo Alto:**

*“One year from now you will be asked:*

- *How did you deal with the immediate crisis - what did you do? How did you assess and price this risk?*
- *How did you adapt your business to the new environment and maintain your core business?*
- *What did you change in your business to maintain your model and for the long term outlook?*
- *What are the long term trends that impacted your business and what did you do to take advantage of these?*

*There won't be significant changes to business but there will be acceleration in trends. No one wants a capital call at this moment, unless its for a really great business with the current Covid-19 risk priced in. What did you do to protect your current cash position rather than coming to me for a capital call?”*

**Dr. Tarek Bin Hendi, Director General ADIO, Abu Dhabi**

*“If you are looking to raise money at the end of 2020, there are multiple areas of support, some of which include benefits that may be non-cash related, but just as important. For example, large tech companies may be able to support your business through their platforms to help you grow and pivot.*

*The current realities of fund raising mean that requests for support vary greatly across companies; a common thread however is that companies are now more flexible with relocation plans as well as potential shifts in their business models to suit business-localization needs.*

*It is important for Founders to look at who’s offering capital and how strategic that capital will be to their long-term success.”*

**Abdul Wahab Al-Halabi, Partner at Decker & Halabi,**

*“There are opportunities in sectors where there was previously an imbalance in supply and demand and now it is case of the “last man” standing in some industries. Industries are changing and people are now focused on how we are connected to each other and the end consumer. I am seeing more cross border and international thinking - businesses are considering new territories.*

*Sectors that are poised for change and growth include healthcare, logistics, fintech, information management, cyber security and agritech. These are not new but there will be an acceleration. AI will have a lot more structured data to work with born from the digital connectivity that is growing through the crisis.”*

**Mazin Al Shanbari, Program Director, Jada Fund of Funds, Riyadh**

*“I believe that the world will go back to at least 90% how it was. Humans are genetically designed to overcome crises like these and shun them from memory later. The world will be changed but not dramatically. This was an opportunity to prove business models that were previously surrounded by skepticism e.g. online grocery shopping.*

*Remote working platforms that enable companies to work with people all across the world on a remote basis with high levels of efficiency will democratise the global talent base. These platforms have been empowered through this crisis, allowing small businesses to access wider talent pool. Supporting sectors like logistics will need to be reinforced and see growth through the growth of the low touch economy. Telehealth another vertical met with scepticism will see more adoption through this crisis - we are already seeing this in KSA, and I'm a living example of that..”*

## CONCLUSION

Finally, we leave you with a few thoughts:

**Don't get sidetracked** trying to manage an uncontrollable situation: **MANAGE YOUR BUSINESS!**

**Stay alert for the bounce-back**, because as with most things in life, this too shall pass, and when it does you and your business need to be ready.

**You are more ready than you think** to make it through this. This is not optimism but rather based on the fact that startups – unlike larger corporations – are used to bootstrapping and to agility, both of which are critical traits to survive this crisis.

**Take Care of your people**, they are your most valuable asset.

And always remember

*“Out of clutter, find simplicity. from discord, find harmony. In the middle of difficulty, lies opportunity.”* – Albert Einstein

For questions or more info pls reach out to: ***info@global.vc***

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# ABOUT

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We're a MENA-based venture capital fund partnering with globally-minded, growth stage companies, focused on innovative technology solutions across the Middle East and Africa (MEA) region.

## OUR TEAM



**Noor Sweid**  
General Partner

- Former **Chief Investment Officer at the Dubai Future Foundation**
- Led the **IPO** of the first company onto the **NASDAQ Dubai** and the **LSE, Depa**, where she scaled the company **tenfold in three years** prior to listing at \$1.1B
- Founded and scaled **ZenYoga**, which was **later sold to a private equity firm in 2014**
- **MBA from MIT Sloan**



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- Former **President, Intellectual Property & Science at Thomson Reuters**
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- **Partner at Apis Partners**
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- **BS in International Politics from Georgetown University's School of Foreign Service**



**Amal Enan**

- Former **executive director of the Egyptian-American Enterprise Fund "EAEF"**
- She was an **Associate Investment Officer at the International Finance Corporation**
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- Executive Assistant at **Thomson Reuters Dubai**, with an excellent track record of senior-level executive support
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