



**STARTUP
POLAND**

**POLISH
STARTUPS
2020**
COVID EDITION
REPORT

STARTUP POLAND

Polish Startups 2020. COVID Edition

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Top 10 key facts from the survey

This year's Polish Startups 2020 survey was focused to a great extent on the situation caused by the SARS-CoV-2 coronavirus pandemic. The pandemic created a real roller coaster on the world markets. This situation also applies to Poland. Some have been significantly affected by the slowdown of the economy, others have doubled or tripled the sales of their services or products. The report aims to diagnose how Polish startups found themselves in this situation, how the pandemic affected their business and what financial support options offered by the state turned out to be the best. It also aims to forecast the situation for the coming months.

#01 The perception of the impact of the pandemic on startups is very divided: 39% of them consider it negative, 34% – positive.

#02 New customers (56%) and better sales (48%) combined with the retention of staff are signs of success for startups during the pandemic.

#03 Lack of new customers of services or products (53%) or a drop in sales (35%) is a clear sign of deterioration due to the pandemic.

#04 The vast majority of startups do not intend to dismiss employees (63%) – only 6% are planning layoffs.

#05 Two-thirds of the companies did not use the anti-crisis shields. Those that did, mainly applied for loans (73%) or exemptions from social security (ZUS) contributions (52%).

#06 More than a quarter of companies have changed their business model, seeing new revenue opportunities or changes in customer relationships.

#07 60% of startups are expecting increased state support. The support should include an option for raising funds, but also tax incentives or acceleration programs. The need for tax simplifications (the “Estonian CIT”) is also recognized.

#08 As many as 80% of startups use their own resources to finance their operations.

#09 Nearly one-third of startups (32%) now generate more revenue than a year ago.

#10 49% of startups which were holding talks with the funds to raise funds at the time of the outbreak of the pandemic believe that it affected the fundraising process.

Post-pandemic stimuli

This year's report "Polish Startups 2020"¹ was created in an exceptional period when social and economic priorities were reshaped and the need for pandemic safety measures dominated the activity of the public sector and many business sectors.

For 6 years we have been carrying out our survey of the sector of innovative enterprises that present the specifics of startups operating in Poland, profiling these startups, identifying barriers and growth engines and forecasting trends in the development of the startup market in Poland. We certainly did not anticipate the events of 2020, particularly the fact that the impact of the global COVID-19 pandemic put the startup ecosystem in Poland under the microscope and that it would prove to be a catalyst for growth for many of them.

The pandemic has forced innovative thinking even on the most traditional consumers and a radical change of habits, opening new opportunities for many companies. During the coronavirus-induced economic crisis, adaptation to the new situation, determination and creativity in action, rapid implementation of unconventional ideas and, above all, the offer of digital products proved to be a recipe for success. All of the above-mentioned elements together are the components of the DNA of startups. These changes were clearly visible in this year's survey, according to which 34% of the startups surveyed were positively affected by the pandemic (including 11% very positively affected), and 27% of the startups surveyed were generally not affected by it. Additionally, 37% of the startups surveyed believe that the situation related to the pandemic would have rather a positive effect on their activity in 2021.

In addition, the pandemic created conditions under which most startups generally create and develop their business ideas. The solutions sought and methods tested to stop the spread of coronavirus were associated with a higher than usual risk of failure. The demand for uncertain tools has increased, with the potential for commercialization difficult to estimate at first. The whole world had to learn to accept, to a greater extent, the costs of innovation in the form of the collapse of some of long-established projects. All these elements, which have always been the daily business of startups and their search for optimal development conditions, have become, due to COVID-19, commonplace for all entrepreneurs who, in an uncertain environment, have been forced to make important investment decisions.

Of course, the pandemic was not a positive stimulus for all startups or it simply had a neutral effect on them. 14% of the startups we surveyed were affected very negatively, and 25% – rather negatively. This varied impact of the pandemic on the operation of startups is primarily due to their products – the situation of startups offering, for example, telemedicine solutions is quite different than the situation of startups cooperating with the tourism industry or offering physical products not related to the health sector.

The flexibility of startups and their easy adaptation to changes can be seen very clearly in our survey, which shows that more than a quarter of companies have changed their business model, seeing new opportunities in the pandemic. Startups saw opportunities for revenue growth in a different model, a change in customer relations or distribution channels. Such changes often require financial or regulatory support, the need for which has increased significantly in recent months among the startups we have surveyed. 60% of startups are expecting increased state support, which in their opinion should involve an option for raising funds, tax incentives, acceleration programs or further simplification of the tax system. Two-thirds of startups did not use the support offered under the anti-crisis shields, and those companies that accepted it most often used loans or social exemptions from social security contributions. This is because it is difficult for startups to use in practice the support mechanisms provided for in the shields, as they are not traditional SMEs. Startups create innovative, more time-consuming solutions and, as a rule, do not generate income at an early stage of their development, which often depends on whether they manage to raise funds from VC sources. Therefore, support solutions for startups should be designed separately, taking into account their specifics, according to their needs. In the regulatory area, it is also necessary to reduce excessive formalities that make it difficult to obtain financial support for startups, for example by extending the use of electronic signatures and, consequently, by improving the flow of documents between entrepreneurs.

We encourage you to read the report “Polish Startups 2020” and draw your own conclusions from a unique survey which provides a snapshot of how startups operate in a pandemic.

Startup Poland Team

¹The survey was carried out using the CAWI (Computer Assisted Web Interview) method on the Ariadne panel in the period from September 11 to October 5, 2020.



01 / 04



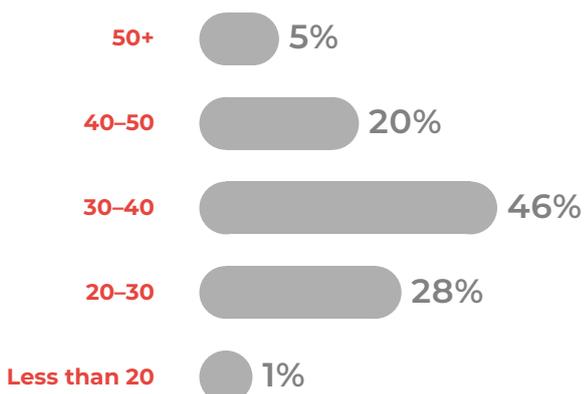
FOUNDER

#01

Who are the Polish startups?

The background of Polish startups and their previous experience can be an indication for those who are planning to start their own tech company. The analysis of data from the previous few years shows that the Polish startup market is becoming increasingly mature – recently, the average age of founders has been gradually increasing. In this year's survey, however, the respondents were asked not about their current age, but about how old they were when they set up their startup. It turns out that this task is most often undertaken by those around 30 (46%), and the second most numerous group are the younger generation (28% of 20-year-olds). One quarter of the founders were 40 years old or older when their company started operating.

Which age group did you belong to when you started the company?



These are probably those older funders that make up a significant part of those for whom the current startup is not their first one. Those who have already had another startup of their own or some previous experience in such a company, account for as many as 43% of the total. This is a significant increase compared to the last year's data (32%), although this time the question is slightly broader – it not only includes the founders, but also those who previously worked in startups. It means, however, that in many cases the first approach to a startup is a “laboratory” to acquire skills and knowledge to be used in subsequent projects. Such a background can make it much easier to avoid some of the common mistakes, especially those made at the beginning.

Did you have any previous experience with working in a startup or setting up/running a startup before this startup?



While the age of founders and startup managers has been increasing in subsequent years, the companies they set up are rather young – as many as 61% of them have been operating for less than 2 years, of which almost half (29%) less than a year. Every fourth Polish startup is between 3 and 4 years old. Those that have been on the market for over 5 years account for 14%.

How many years has your startup been running?



Startup representatives taking part in the survey are usually their owners (86%). Interestingly, for most of them working in a startup is not the only source of income. This may have negative consequences – the funders have, admittedly, more income from other sources, but at the same time they may not have enough time for the real development of their startup. If its founder can devote 100% of his/her time to such a project, the chance that they will succeed and join the group of startup champions is much higher.

Is working in this startup your only source of income?



Well used potential

The last 5 years have not only confirmed our belief that there is great potential in the Polish startup ecosystem, but also that Polish entrepreneurs are beginning to make the most of it. The number of new starts, the interest of the public sector, the scale of domestic and foreign investments of Venture Capital – all this has proven to be a market where we can reliably count on growth. In November this year it is exactly 5 years since Google for Startups became part of the Polish startup ecosystem. Over that period, more than 1,800 founders from Central and Eastern Europe have joined our community, more than 1,200 of them from Poland.

Every year more and more interesting companies appear on the Polish startup scene. Our market is characterized by the very young age of its startups. According to the survey, more than 60% of them have been operating on the market for less than 2 years. In addition, startups are set up

mainly by people who are over 30 years old and already have professional experience gained in previous stages of their career. It is often an alternative career path after working for a corporation, where all the skills and contacts gained can be turned into a new business.

In Central and Eastern Europe, our country leads in terms of the largest number of developers, and the dynamic development of the startup market is also followed by growing investments. Polish startups can increasingly count on financing from foreign Venture Capital funds, and the level of investment has increased nearly fivefold since 2015. Due to the nature and young age of Polish startups, early rounds of financing predominate (Seed, Round A), which, according to the PFR and Crunchbase report, amounted to a total of over USD 700 million in 823 rounds over the past 7 years, giving an average of USD 850,000 of financing per round.

The market is accelerating. Only in 2019 we observed a significant increase in fundraising – Polish startups raised USD 323 million, and the increased number of investments was also a result of increased interest in the Polish market among foreign investment funds, which were involved in 70% of the amounts invested in Polish startups. We also observed their involvement during the second edition of our Venture Capital Summit project, which took place online this year. The 2020 edition attracted 170 investors from 30 countries, who represented a total of USD 160 billion of investment capital. In 2020 alone, fund raising became somewhat more difficult, as indicated by the startups in this year's survey. This was mainly due to the pandemic, as a result of which some investment funds held back money for follow on investments and opted to monitor the situation. The subsequent financial rounds in recent months, on the other hand, show that the market is returning to an upward trend. As Google for Startups, we continue our support for the market in the offline and online model, and access to foreign investment funds is one of our priorities. ■



Michał Kramarz

Director of Google for Startups
in Central and Eastern Europe,
Head of Google for Startups Campus in Warsaw

We increase the tolerance for risk and failure

At first glance, it may seem that the statistics indicating that more than half of all startups have been operating for only 2 years on the market are pessimistic, especially when compared to more mature ecosystems, where the survival of companies is twice as long – in the USA a little over half of all startups will actually survive until their 4th year of operation, while the failure rate for startups after 4 years is approximately 44%².

However, from the perspective of a reactor whose mission is to supply a fresh stream of ideas to the ecosystem so that it can be continuously powered, I believe that this is a natural stage in the development of our local

startup world – important and helpful in understanding and increasing the tolerance for a high level of risk and failure in startup operations.

When we input beginner founders into our accelerator, we are aware that success will primarily be measured by the answer to the question whether a given idea makes business sense and whether it will find customers. If not, it is a good thing that the founders will find out about it using as little time and resources as possible. Negative attitude to failure is one of important barriers to the development of the startup ecosystem.

For a deeper understanding of the maturity of the ecosystem, it would be worth comparing the startup period versus the life cycle phase of the company in question.

MIT in Cambridge has found that the average age of a startup founder in the USA is 42. Moreover, on average, it is only the average 45-year-old entrepreneur who can boast of a profitable investment. A picture of a younger founder emerges from the Startup Poland survey. It seems that it is possible to relate the age of the founders of the startups with the aspect of the company "survival" discussed above. The 20-year-old setting up a company for the first time has a very little chance of success.

Moreover, the surveys show that 50 year old entrepreneurs are twice as likely to develop a successful business than a 30 year old. I'm sure that over time the tendency for more mature people to develop their own technological projects will increase and become one of natural options for a career path, just as it has already become popular among 20-year-olds. Perhaps it is worth changing how the media present the success stories of startup founders, who built their multi-million dollar companies while still at university. This would help older people find that there is a model for themselves as well.

■

²Data available at: www.bls.gov



Agata Kwaśniewska
CEO ReaktorX



02 / 04

STARTUPS DURING THE COVID-19 PANDEMIC

HOW HAS THE CORONAVIRUS PANDEMIC AFFECTED THE ACTIVITIES OF STARTUPS?

As forecast by the European Commission, Poland's GDP in 2020 will be reduced by 4.3% and in the European Union by 7.4% on average. However, it is possible that an unusually strong impact of the pandemic in the autumn, this time experienced in Poland as well, will make it necessary to revise the data and will make it more pessimistic. The expectations of some economists that the economic situation may return to the pre-pandemic level in Q2 2021 may therefore not come true.

And how did the pandemic affect the condition of the startups? The data show that the sector of the latest, digital solutions, which are often the essence of startups, is in a relatively good condition, compared to many other industries. According to report published recently by McKinsey & Company between January and May this year the development of the Polish digital economy accelerated rapidly and was 2.5 times higher than in the previous two years, reaching the level of 18.4%. Whereas the data from the Polish Development Fund show that the sector of young, innovative companies, despite the pandemic, continues to enjoy great interest from investors. In the first quarter of this year, they invested PLN 244 million, more than twice as much as a year before, and in the second quarter – another PLN 169 million. It seems that the data may also turn out to be optimistic in the remaining months of this year.

More than one in four startups declare that the pandemic has not changed the way they operate in any way, and therefore they still operate on the basis of the assumptions and plans made before its outbreak. In this group of startups, the lack of impact of the epidemic situation on business is most often manifested by the ability to avoid layoffs among key employees (43%)

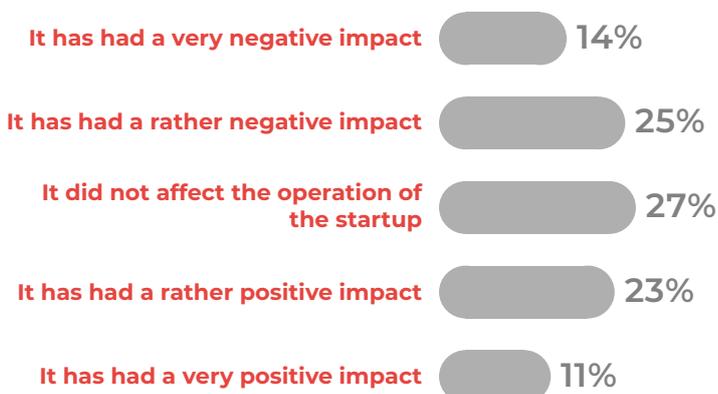
and continue implementing the strategy of entering new markets (41%). Almost every third respondent indicates that their financial liquidity has been maintained. The same percentage indicates that the number of customers – recipients of their service or product – has been maintained as predicted. Additionally, 29% of them do not notice any change in their customer loyalty. The same number has not noticed any drop in sales.

What are your reasons for concluding that the SARS-CoV-2 coronavirus pandemic has not affected the startup operation?



Among other companies surveyed, a strong polarization can be observed in the assessment of the impact of the pandemic on their business – a similar number of startups saw it as positive or very positive, as if they opposed those who notice a more or less negative impact. It is worth noting that the percentage of these pessimistic assessments is only 5% higher, which, against the background of many segments of the economy experiencing dramatic drops in turnover, can be regarded as quite a good result. If we sum up the answers indicating the neutral and positive impact of the pandemic, we can easily see that the Polish startup industry is doing really well in this difficult period.

Has the coronavirus (SARS-CoV-2) pandemic affected startups?



In the overall socio-economic context, the COVID-19 pandemic is obviously perceived negatively. Further restrictions, lockdown, turnover drops, layoffs and production downtimes – these dark effects are reported daily by the media. Meanwhile, when asked if they feel any positive effects of the pandemic at all, startup representatives mention even a few. The most frequent are the acquisition of new customers of their services and products (56%) and a noticeable increase in sales (48%). These key parameters for measuring success, even in “non-pandemic” times, are now even more important. According to the respondents, the retention of all key employees is not only the already mentioned measure of whether a pandemic has affected the operation of a given business at all – as many as 43% of the respondents mention this factor in the context of advantages resulting directly from the pandemic. When asked what else has changed in their business for the better, startups talk about gaining a new good employee (or employees) – such a change in their organization is declared by 18% of respondents. 15% managed to enter new markets with their products and services and 11% recorded increased customer loyalty.

**How, in your opinion, did the COVID-19 pandemic have a positive impact on startups?
What's changed for better?**



The analysis of data by individual industry shows many interesting relationships. There are quite a few companies that did not indicate any negative effects of the pandemic in the survey. This confirms the thesis that Polish startups are doing well at this time in the current, extremely difficult situation, although of course there are market segments that are doing very well, but there are also those that are experiencing great problems.

The greentech and cleantech industries are doing fairly well, and thus in turn so are startups developing products and solutions for their needs. Here, the positive effects of the pandemic are indicated by as many as 40% of startups. It is a good sign that despite the difficult situation, a large part of companies operating in the field of broadly understood ecology, renewable energy or other activities eliminating the impact of adverse factors on the environment are doing well. At the same time, however, an identical percentage of these entities assess the impact of coronavirus as bad, 20% of which consider it to be significantly bad.

The situation of cyber-security startups is even clearer (43% assessed it as very positive and 43% as rather positive). Given how many areas of our lives have moved to the network during the pandemic, the increase in demand for such services seems perfectly natural. On top of

that – not a single respondent operating in this area experiences any negative effects of the pandemic. The e-sport industry is also doing very well. As many as 75% of the startups operating in this area indicated rather positive or very positive effects of coronavirus on their business, which is important – also with a zero percentage of negative declarations. Most experts agree – e-sport will be one of the few industries whose performance will grow at a dizzying rate, and the pandemic has a chance to accelerate the process even more. The situation of a related group of startups – those involved in gaming (e.g., game producers) is also optimistic. Among them, one in five indicates a significant improvement in their situation and another 60% to some improvement, with zero negative ratings. Also, one in five startups in this industry has not experienced any impact of the pandemic on their business. One third of the companies offering VR (Virtual Reality) or AR (Augmented Reality) solutions assess the situation rather positively, and 17% moderately negatively. Every second respondent in this category indicated that the pandemic did not in any way affect their activity.

The health crisis translates into the activities of medtech – 44% of them indicate good aspects of the pandemic for their business, of which 16% assess them as definitely positive. There are 28% of negative ratings. Biotech companies are doing a bit worse, although the balance is positive (43% of positive ratings to 28% of negative ratings). E-commerce is also doing quite well (46% of positive indications, but out of which only 8% of definitely optimistic). The predominance of optimism is also visible among fintech and insurtech companies (exactly half of them assess the situation as good, and almost one third as bad). In other sectors, the effects of the pandemic are most often either not really experienced or the negative impact prevails. As many as 63% of startups from the agrotech sector have not experienced any impact of the crisis, as every second entity operating in the area of social media and entertainment, and almost half from the area of martech (marketing technology). Although in this perspective the record holders are companies operating in the area of sport (71% of neutral indications).

At the other extreme there are those startups that assess the impact of the pandemic as negative or very negative. In this group, which accounts for 39% of the total number of the entities surveyed, more than half (53%) considers the inability to acquire new customers for their products and services to be their biggest problem, and 35% have noticed a decrease in sales. 34% were forced to exit a market either completely or partially or the pandemic has prevented them from entering new markets. Less customer loyalty is a bad aspect of the pandemic for 16% of respondents. Some of them also declared that they had lost valuable employees (8%).

**Why, in your opinion, has the COVID-19 pandemic affected startups?
What's changed for the worse?**

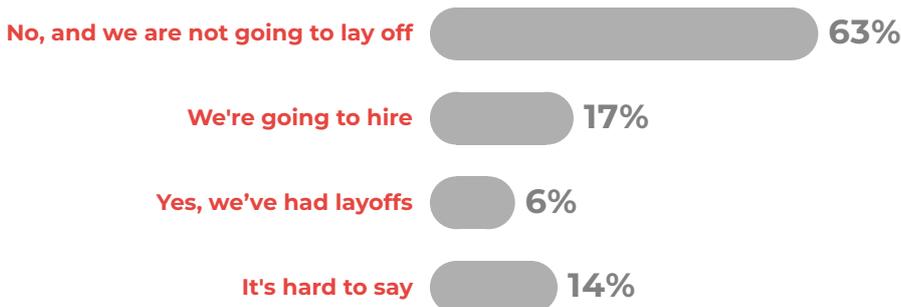


Among the market segments that are doing worse during the pandemic would be startups offering HRtech services (64% negative ratings) and blockchain/DLT services (66%, half of which are very negative). The following sectors are also currently experiencing difficulties: foodtech (55% of which 33% are very negative), transport (43%) and tourism (40%).

The negative impact of coronavirus on transport startups is not at all surprising in view of the government's restrictions and limitations imposed on movement from one country to another and within countries. The bad moods associated with blockchain and DLT activities may, on the other hand, be the result of suspending the activities and freezing funds for development and innovation – many companies have decided to wait or look for savings in such areas. The dramatic situation of the entire tourism industry has also impacted startups operating in this market area: a similar relationship may exist between the catering sector and foodtech companies, whose activities have again been very limited.

Changes of staff in sensitive positions are always a challenge for companies, and frequently considerable difficulties. All the more so in times of the crisis caused by COVID-19, it significantly hampers their operations. The elimination of the related difficulties can therefore be boldly regarded as a success and considerable added value. Despite economic problems resulting in an increase in the unemployment rate in the long term, there is a positive trend among startups which shows that this area has a chance to avoid the problems faced by other, more traditional business branches. The survey shows that almost two-thirds of them (63%) are not planning any redundancies or layoffs. It is often the opposite – almost one in five (17%) is planning future expansion and new recruitments. Only 6% of the respondents explicitly stated that they have recently been forced to make redundancies in their team, and 14% are unable to predict how things will turn out in the near future..

Has the number of people employed in your startup changed due to the coronavirus pandemic (any basis – contract of employment, B2B, contract of mandate, contract for specific work, other)?



There is still tomorrow and we have to act today!

A time of crisis encourages the development of new business models. It is now that more attention is paid to keeping an eye on costs. There is a reluctance to spend, but also a greater tendency to look for optimization.

Not only small entities, but also large entities totter when faced with the crisis. It's an agile startup that doesn't yet have the ballast of fixed costs, can build, introduce innovations and conquer markets.

The old world is dying, and a new one is rising from its ashes. Will startups use this opportunity? It all depends on their belief in opportunities and skills. I have personally observed three dominant attitudes in the market.

The first is to wait until it is over, and this was particularly evident during the first wave. Everyone who wasted that time, today, during the second wave, is kicking themselves now. It was then that many were treated gently by the market and it triggered the misconception that they would manage somehow.

The second option is that "we have a plan and we're moving forward". We change this and that, and we move on, because what we do is necessary. Or we start anew, because this is our time. This is also perfectly visible in the results of the report – as many as 56% of companies indicated that they "gained new customers of products/services".

The third attitude is the breakdown. I see people finishing projects or closing entire companies, all this to minimize losses. They may finish everything at zero balance. According to the data, only 6% decided to have layoffs and 17% intend to hire – this is very optimistic.

I'll add two pieces of advice from me. If you're to fall down or go bankrupt, this is the right time. Don't worry about it. The best ones were losing. The sooner you give up the idea, instead of getting into it, the better for you and everyone around you.

The second advice for the "let's wait" attitude is: there is nothing to wait for, there is still tomorrow and we have to act today without postponing the decision. Are you looking for funding? Today is the best time to do it. For all new business models, a golden decade is coming. ■



Arkadiusz Regiec
President and Founder
of Beesfund SA

The pandemic roller coaster

Booksy is a tech company operating in the beauty sector, one which was affected greatly by COVID-19. The lockdown introduced in virtually all of the markets where Booksy operates stopped beauty service providers from working overnight, hitting both our business and that of our customers.

In the period from February to April our activities were focused on helping our customers by offering them promotions, introducing features to facilitate their operations (online services, mobile services), as well as preparing a dozen or so scenarios for the company.

We took all measures to reduce cash outflow from the company, such as renegotiating contracts, withdrawing from some leases, etc.

It was also a period of very difficult decisions related to the layoffs of part of the staff, often those who had been in the company from the beginning. We had one goal: to reduce costs enough to ensure the team that stayed on board would survive this together, whatever the market situation. We also used this period to sort out/automate processes, for which we did not always find time in times of strong growth.

From today's perspective we also see a positive impact of this situation on our business. Booksy started being perceived as a tool for arranging visits also outside of the beauty industry (banking, services, shops, telecommunications, nursing homes) and in addition a growing number of businesses which have operated so far using the "pen and paper" model decided to use electronic tools.

This resulted in a 50% increase in sales, which we recorded in virtually all markets after the termination of the lockdown period, compared to the situation from before the lockdown. The need to serve a significantly higher number of incoming customers, virtually without any marketing activities, meant a quick shift to a higher gear, which in turn allowed us to hire back some of our team members.

It was possible to take advantage of this opportunity due to the solid foundations and the mobilization of the entire team, because it is the people who represent the greatest value in Booksy.

Working in times of a pandemic is still a challenge in terms of the human factor, but I am not talking here about the management of remote teams. We have always been working in the cloud, on several markets, so remote work, video conferences were not a novelty for us. Nevertheless, ensuring the integrity, the sense of belonging, having fun together and simply spending time together is a task that is hard to do online. And that's probably what we miss the most – eating breakfast together, chats by the coffee machine, a fleeting smile in the hallway. ■



Małgorzata Szturmowicz
CFO, Booksy

Security of the remote process of customer acquisition

The COVID-19 pandemic has greatly accelerated the digitization of all processes that were still in the traditional channel, i.e. direct contact with the customer. An important component here is the element of acquiring the customer – verification of their identity and signing the first contract with them without physical contact.

While the market is getting better and better at handling the process of contracting, the online identity verification process is only at the beginning of its journey. The market is currently dominated by solutions based on scanning of physical identity documents and the so-called “liveness detection”, i.e. recording of short videos to confirm the authenticity of a given person. This technology is used, among others, in financial institutions to set up

accounts, and some of them have even gone as far as granting loans on this basis.

Unfortunately, recent security tests clearly show that this technology is very susceptible to so-called “deep fakes”, i.e. a computerized change in the appearance of the face in real time with the reproduction of its facial expressions. This significantly weakens its credibility as the only method used to remotely verify the identity of a given person.

Because of the range (every person has an identity document), this method cannot be omitted, but one must consider whether it is sufficient in itself and whether it must always be used. In my opinion, the answer is clear – definitely not. We already have technologies that enable verification of identity on the basis of digital documents or

their derivatives, as well as confirmation of identity by authentication of a person in the process of logging into the bank, e.g. using the open banking standard (PSD2) launched in 2019. There are also simple and effective methods to confirm your phone number or email address.

So let's look at the needs of our business and determine what data we need, and how much evidence we need. Then let's take advantage, preferably with the help of an entity specializing in this area, of properly arranged methods that enable remote confirmation of identity in an optimal way, both in terms of the quality of data confirmation, the time spent on it by our customer and the costs that the data confirmation methods imply. In most cases, it turns out that the ideal solution is to efficiently combine more than one method of confirming selected personal data.

One thing is certain – the future in this area belongs to digital identity carriers and entities that enable efficient and cheap commercial online identity confirmation. ■



Krzysztof Klimczak
Co-founder and CEO,
Authologic

Other changes caused by the pandemic

The government's pandemic restrictions had a direct impact on the national economy. This, in turn, as a system of interconnected vessels, affects many different industries. For some, it is even dramatic – as is the case with the tourism, entertainment and catering industries. In others, such as in the IT industry, the negative effects may be minor or non-existent. However, as the survey has shown, although most startups did not suffer the direct negative effects of the pandemic, it should be remembered that these companies do not operate in a vacuum and they depend on their contractors, subcontractors and customers, and those may be experiencing significant difficulties at present. This in turn may result in for example the significant postponement of payments and resulting payment bottlenecks, delays in the execution of tasks contracted or reduction of investment or development plans.

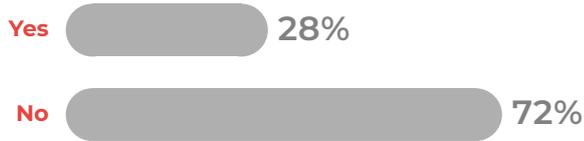
According to the “European Payment Report 2020”, published at the end of September by Intrum, as many as 82% of the companies surveyed admit that they accepted extended payment times in order not to destroy the relations with their customers. This survey also showed that 58% of SMEs and 48% of large companies have liquidity problems due to the insolvency of their contracting parties. Fortunately, for the time being, these problems have been avoided by Polish startups – the vast majority of them (86%) have so far not met with a customer's request for an allowance or deferral of payments due to the ongoing pandemic crisis. It is to be hoped that this comfortable but unique situation, at least when compared to most industries, will continue in the future.

Have your customers approached you with a request for allowance/ deferral or cancellation of payments?



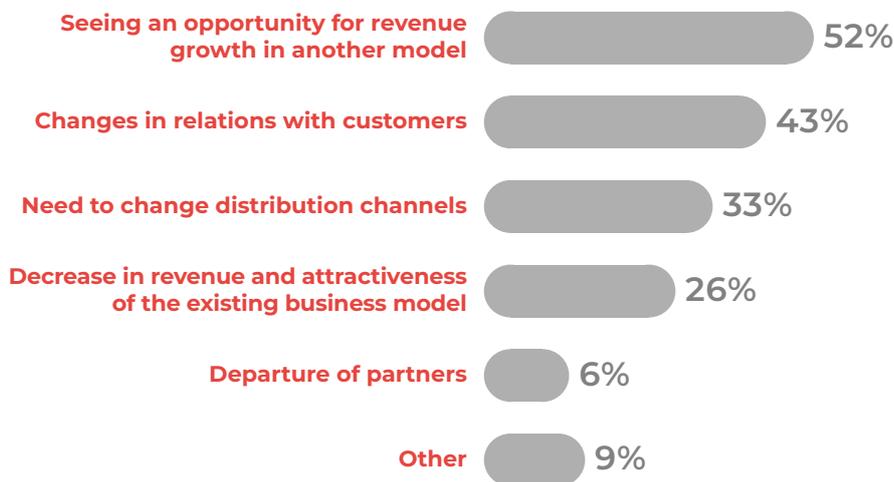
This does not mean, however, that all Polish startups are sitting back and waiting for the developments. More than one in four of them declares that the coronavirus pandemic has contributed to a change in the current business model.

Has the coronavirus pandemic changed the business model of your startup?



When asked about the reasons for such a decision, more than every second startup (52%) indicated that it was a result of seeing an opportunity for revenue growth in another model. Nearly 10 percentage points fewer companies declare that this reaction was the result of changes in the startup-customer line. In this case, one in three respondents declared the need to revise the existing distribution channels, and a quarter reacted in this way to the decrease in revenue and attractiveness of the business model used so far. In 6% of startups, these changes were forced by the departure of at least one partner.

If so, what was the reason for it?



Despite a relatively good business situation of Polish startups, the opinions of startups are usually neutral or negative when it comes to the assessment of changes in the process of obtaining financing; 44% of them do not notice any changes in this area. At the same time, as much as 37% already declare that in their opinion it is becoming more and more difficult to raise funds from external sources. Nearly one-fifth of them can notice changes, but for the better (19%).

How do you assess market changes in terms of fund raising for startups?



The impact of the pandemic on the VC market is significant

The COVID-19 pandemic can be described as a “Black Swan” event, as Nassim Taleb describes in his book of the same title. I don't think anyone would expect such havoc in the world economy within such a short time. I consider the impact of the pandemic on the VC market to be significant. What we saw in the first weeks of the pandemic was a strong polarization of the impact on fund portfolios. The industries most affected were those focusing on travel and hospitality. Due to the bans, the revenues of some companies have dropped almost to zero. Many investors were forced to focus on rescuing portfolio companies and securing them with additional capital. Therefore, in the first weeks of the pandemic, companies raising funds experienced a lack of interest from investors in new investments for the first time. Depending on the geography, the drops were larger or smaller.

When observing the number of transactions in CEE on a year-on-year basis, a considerable slowdown could be noticed. On the basis

of data published by PFR Ventures, Poland looked good in comparison to CEE. In Q2'20, Symmetrical gathered a large round with the participation of good foreign investors. However, Symmetrical (as well as the entire fintech industry) can be an example of a company and product that was barely affected by the pandemic. The third quarter saw a definite revival. After mastering the situation at the portfolio level, many funds focused on finding new companies.

The big winners here are probably all companies building products supporting remote work and e-commerce. An interesting example is Remote, which offers a platform facilitating the process of hiring employees around the world. The company raised €11M in Seed round in April, and in October it managed to increase its funding by €35M in Round A. The second company to win the pandemic is Hopin, a virtual event platform. Only this year the company raised \$170M of funds and has grown from 0 to \$20M ARR.

Of course, these are only selected examples of companies that have ideally adapted themselves to the "mood of the times" and become a desirable commodity in the VC market. In our region we can also boast of several interesting transactions during the pandemic. Infermedica (Innovation Nest portfolio) raised ~\$10M in Round A. Lokalise, which offers tools supporting the digital product localization, raised €5M. Estonian Veriff, which is developing identity verification technology, raised €14M. There are more examples like these, and the common feature of these companies is that their products have become increasingly important in the age of pandemics.

I think that apart from the impact on the fund raising itself, the pandemic had a big impact on the work of investors. Because of the lack of conferences and limited travel opportunities the activities related to the sourcing of new transactions were taking place online. Suddenly it doesn't matter whether you connect to Zoom from London or Warsaw. All investors had to adapt to the "new normal". Time will tell whether this change was temporary or permanent. What could be observed is that the physical boundaries have ceased to apply and the appetite of investors for investments in various previously unknown regions has increased. Let us hope that this change will have a positive impact on the VC market in Poland and in the region. ■



Marcin Szeląg
Partner, Innovation Nest

Support opportunities offered by the state during the pandemic

In response to the spring closure of economies, most countries prepared anti-crisis programs, which were implemented almost immediately. It was no different in Poland, where successive versions of the so-called “shields” appeared, addressed to companies that lost their revenues as a result of pandemic restrictions. Some of the support was non-refundable, others required, for example, the maintenance of jobs in enterprises. The so-called financial shield, prepared and financed by the State Development Fund, was positively received by companies and the majority of market experts. According to PFR data, to date it has been used by 345,900 entities.

However, as it turns out, startups have benefited from this state support relatively rarely – almost two-thirds of them have not benefited from the solutions offered under the anti-crisis shields. If we compare this information with data on the impact of the pandemic on their business, it can be argued that many were in a position good enough to be ineligible for this type of support when a significant decrease in turnover had to be shown – quarterly or on a year-on-year basis.

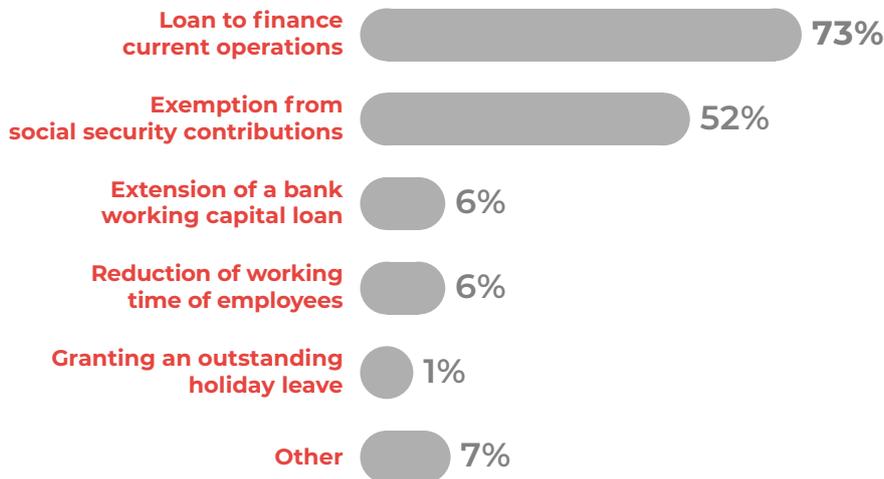
Do you expect increased state support?

Yes  60%

No  40%

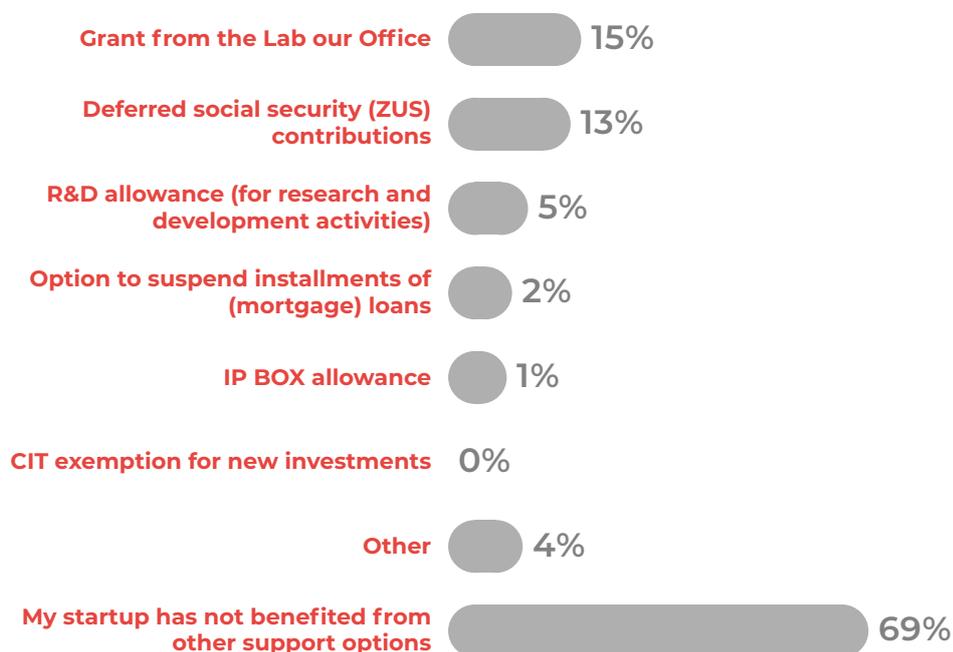
Those entities which reached for support instruments from the shield, in the majority (73%) decided to take out a loan to finance current operations. Slightly more than half of the respondents (52%) took advantage of the exemption from social security (ZUS) contributions. Only a few percent of companies in this group looked for savings by laying off employees (6%) or requiring them to take a compulsory annual leave (1%).

What instruments did your startup use when benefiting from the anti-crisis shield?



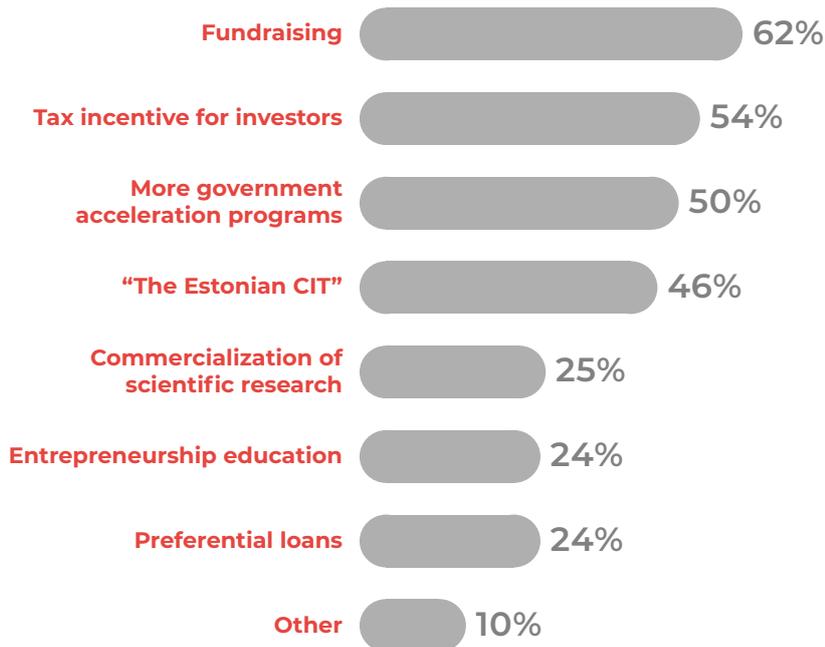
In turn, those startups that could not or did not want to use the government's shield (65% in total) were asked whether they used any other means of external support. It turned out that the overwhelming majority of them (69%) did not benefit from any available support opportunities at all and are coping with the pandemic alone. Among those who requested external support, the majority, i.e. 15% received a grant from the labor office, and another 13% – a deferral of social security (ZUS) contributions. The remaining options were much less popular – 5% received an allowance for research and development activities, and 2% benefited from the so-called credit holidays, i.e. the option of suspending mortgage installments.

Did your startup benefit from other support options?



On the other hand, as many as 60% of the respondents would expect increased state support. It means that the need for such support, however, exists among startups or may still exist in the foreseeable near future. In the opinion of those surveyed, state support should mainly involve assistance in raising additional funds (62%), but tax incentives (54%) or increasing the number of government acceleration programs (50%) were equally often indicated in the survey. The need for tax simplifications was also quite commonly declared – “the Estonian CIT” (46%). One quarter of startups indicated increased assistance in the areas of commercialization of research, entrepreneurship education and obtaining preferential loans.

In what areas do you expect to see more support from the state?

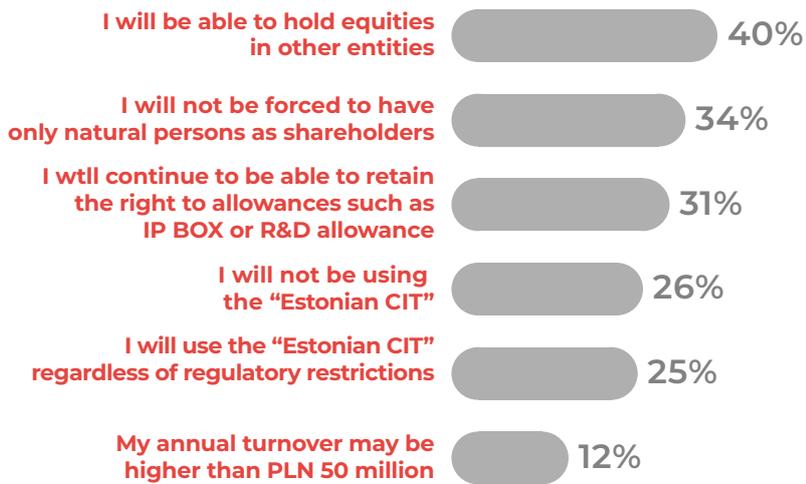


What is “the Estonian CIT”? According to the promoters of this idea, it is supposed to increase the competitiveness of domestic companies by facilitating the reporting process and releasing additional capital for investment. The tax waiver is to continue as long as the income remains in the company. In the opinion of the Ministry of Finance, the purpose of changes in CIT is to stimulate investment in the enterprise sector.

Polish startups, when asked if they decide to use the “Estonian CIT”, are quite sympathetic to the idea, but usually under certain conditions, not foreseen by the presented bill. The most frequently mentioned are the ones about maintaining the possibility of simultaneously holding equity in other entities (40%) or eliminating the condition that only natural persons are shareholders in the company (34%). One-third of the respondents indicate the concurrent need to maintain the allowances already in use (e.g. IP BOX, R&D allowance).

The number of determined enthusiasts of this solution among Polish startups, regardless of the conditions mentioned above, is almost the same as the number of those who do not intend to use this type of solution. In both cases, it is one out of every four asked..

As a startup, I will use the “Estonian CIT” (no need to pay CIT as long as the profit remains in the company) when it comes into force, provided that:



Not just financial support

Although iTaxi is not an industry that has been subject to direct sanitary restrictions, we expect the effects of the second wave of the pandemic to be much stronger and more lasting than the first one. Therefore, we would expect the State to not only increase its support, but also to address it to the companies that have actually suffered from the crisis caused by COVID-19.

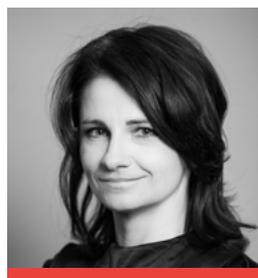
The rules for the allocation of funds for some instruments in previous forms of the crisis shield were quite general. During the first wave, iTaxi benefited from:

- subsidies from the Guaranteed Employee Benefits Fund for salaries of employees affected by limited working hours;
- support under the PFR grant;
- the option of deferring the dates of payment of public-law liabilities, i.e. Social security contributions (ZUS), personal income tax (PIT).

However, the award criteria did not always take into account the business model of a given company and the actual impact of the crisis on financial results. This was also the case with PFR grants, where the main criterion in calculating its level was the amount and drop of turnover.

This led to a situation where companies with high turnover and at the same time high profits received very high amounts of funding.

In addition to financial support, we would also expect the state to simplify procedures, make formal simplifications for taxpayers, which should indirectly translate into the optimization of administrative costs and redirecting these funds towards investments. ■



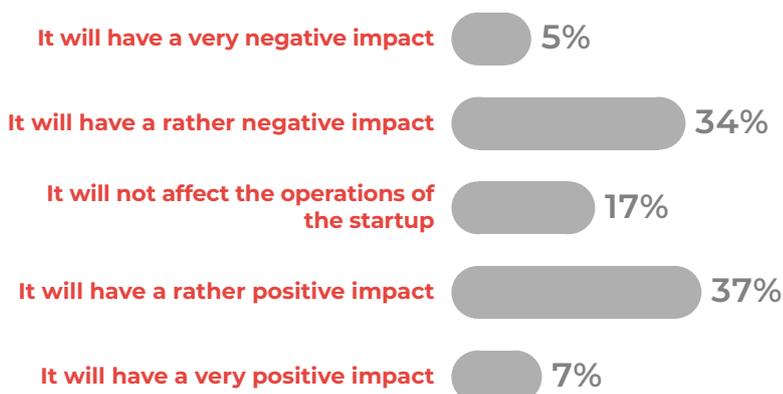
Renata Bardecka
CFO at iTaxi

Forecasts for the future

The pandemic and the specter of further, stricter restrictions clearly influence the mood of entrepreneurs. According to the Central Statistical Office data, after a slight rebound in the summer period, they went down again in autumn. The general economic situation index calculated by the Central Statistical Office every month dropped in October for most areas of economic activity. Pessimism dominates the assessment of the situation in the near future.

Against this background, the startup sector is, as it turns out, doing pretty well. There are almost as many negative assessments as there are positive ones when it comes to predicting the situation of startups in 2021. Thus, according to 39%, the impact of the pandemic on their activity next year will be negative (of which 5% consider it very negative). On the other hand, 44% are optimistic about the impact of coronavirus on business (7% of which are very positive). Almost every fifth respondent declares that the pandemic will have no impact on their company.

Do you think that the situation related to the coronavirus pandemic (SARS-CoV-2) will affect the future of startups in 2021?



Talent pool, **funding** and unicorn

The year 2020 has greatly revised future forecasts in many industries. Despite the great anxiety of the startup market at the beginning of Q2 2020, it may turn out that it is this sector of the economy that will do best during a pandemic.

Talent pool

In the development of our ecosystem, we are approaching the point where the rotation of talent between startups will be significantly accelerated. Experienced managers and C-level employees will soon start developing further projects (their own or move on to new ones). This is the result of two forces: the increasing number of startups (more and more places where you can gain experience) and the widening of the group of the largest of them (more and more experienced people who for various reasons “come to the wall” and are willing to change the workplace). In the Startup Poland report, the above observation is confirmed by the information that 47% of respondents in the current startup had worked in another one before.

Financing

The system currently contains more than PLN 2 billion of “dry powder”. This is the sum of available funds from the PFR Ventures pool, which management teams can invest in innovative projects. However, local public capital funds are only one of the rivers that supplies funds to the Polish VC market. Since the beginning of 2019, the involvement of investors from international funds, which enable fundraising for domestic startups at

later stages of development, has significantly increased. The year 2020 showed that despite the pandemic and economic restrictions, the largest number of VC investments in Poland in terms of invested capital in Polish companies occurred.

Unicorn

Compared to the CEE region, we still miss the Polish unicorn very much. According to the report of Dealroom and PFR, more than 800 rounds of fundraising have been carried out since 2013. Nevertheless, we still don't have any company with a valuation in excess of USD 1 billion. There are projects with this status already operating in Estonia (Skype, Transferwise, Bolt, Pipedrive) and Lithuania (Vinted) – in both of these countries together, the same number of fundraising rounds were carried out as in Poland. I see at least a few local candidates. Perhaps 2021 will be the breakthrough year for them. ■



Eliza Kruczkowska

Director of the Innovation Development Department Polish Development Fund





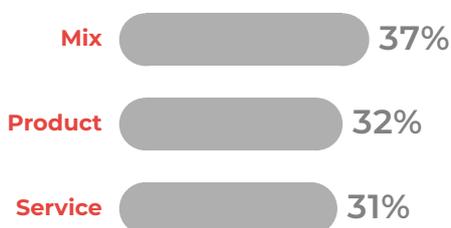
03 / 04

THE CHARAC- TERISTICS OF STARTUPS

What do startups do in Poland?

Analyzing Polish startups in terms of their offer, they can be divided into three groups of similar size – almost identical percentage sells a product (32%) or service (31%). A little more, 37%, declare that what they do is a mixture of product and service.

What does your startup offer?



Startups are almost equally divided into those selling physical (48%) and digital (52%) products. As far as physical products are concerned, mass products predominate here, e.g.: clothes, cosmetics, accessories, toys, etc. (38%). All other categories received 21% each and these are: IT hardware, i.e. electronic equipment, or a customized product or product implemented individually at a given customer's site. The same percentage indicated another

type of product not specified in the survey. In the case of digital services, web applications are in the lead, e.g. SaaS (69%), 13% are mobile applications, and another 6% sell and implement customized software, i.e. a “tailor-made” product.

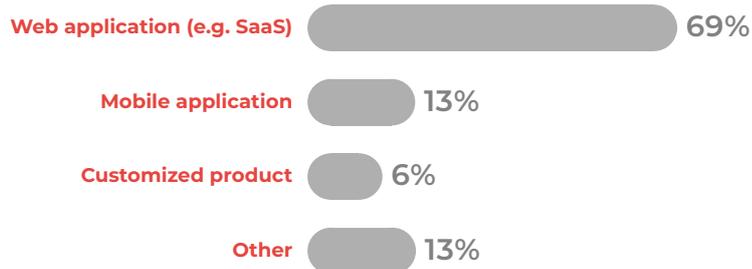
Which category best defines your product?



Which category best defines your product? /physical

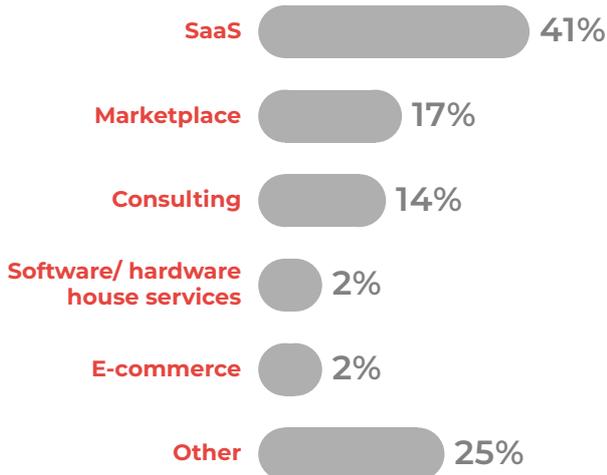


Which category best defines your product? /digital



The startups surveyed were also asked to indicate what type of services they offer to their customers. Most of them, as much as 41%, describe their service as SaaS (Software as a Service), i.e. sale of software as a service, not a product. Marketplace is a solution offered by 17% of companies, and consulting by 14%. A relatively small part of startups indicated hardware or software house services or e-commerce (in both cases only 2% of indications). Such a large advantage of SaaS, as the category of services offered the most frequently, should not come as a surprise – in the surveys conducted in previous years, the results were similar.

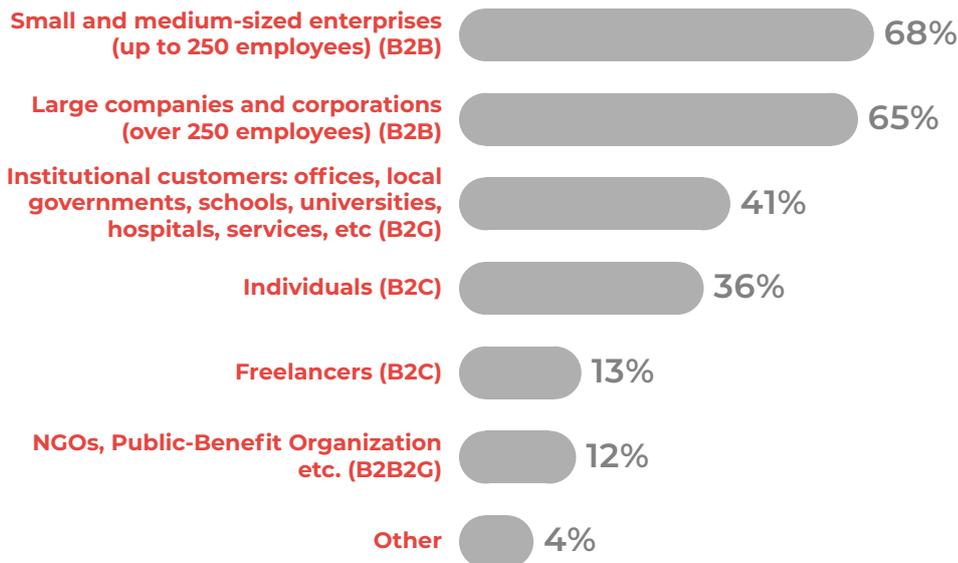
Which category best defines your service?



So what is the target group for services or products offered by the Polish startups? First of all, the vast majority of these are B2B activities – selected much more often than B2C or B2G. As far as the first group of respondents is concerned, 68% of the assumed target group of the offer are small and medium companies (up to 250 employees), and 65% – large companies employing over 250 people, and corporations.

The third place is taken by institutional clients, such as: offices, local governments, schools, universities, hospitals or services. 41% of startups provide their services to these entities. For more than every third startup, the customers are mainly individuals (36%), and for 13% – other categories of individual customers, such as independent profess

What type of customer is the assumed target group for the startup product/service?



Cooperation of PKN ORLEN with startups

For PKN ORLEN, building a strong competitive position not only means large investment projects, but also the development of innovative and R&D activities. Therefore, innovation is treated as a priority and will certainly be an important element of further development strategy. Young tech companies in Poland and research institutes more and more often offer high-tech solutions that help in business development and entering new areas of activity.

Partnership in programs such as Scale Up and GovTech enable a more thorough market analysis of available solutions, the selection of the most interesting ideas the performance of pilot tests on PKN ORLEN infrastructure.

By participating in the Space3AC accelerator, we have been able to increase our competence in the use of unmanned aerial vehicles under the ScaleUp II program. Two pilot projects for the use of drones in monitoring the Group's assets have been carried out.

These solutions have allowed us to not only increase the effectiveness of monitoring, but also the detection of third party interferences on transmission installations. In these difficult times, we give priority to the safety of our customers and employees. By using the Symmetrical.AI system with the option of “on-demand” payment of part of the remuneration we have ensured financial security for our employees. The Surveyly solution, based on artificial intelligence, used in an asphalt pouring plant, enables early detection of irregularities during the pouring process. By participating in the GovTech Polska initiative we have improved the verification of payments at the petrol pump for mFlota customers. The solution developed allowed for the thorough monitoring of payment fraud attempts while applying high tech technologies.

At the same time, PKN ORLEN has been strongly involved for many years in the development of Polish electromobility.

The ambitious plan to build a dense network of vehicle charging points was supplemented by participation in the Pilot Maker Electro program. Together with Enelion we have developed innovative chargers to optimize the charging of electric vehicles.

The above initiatives are only our starting point for developing innovative technologies and building competencies in new business areas. We are in the process of recruitment for ORLEN Tech Days, we are also finalizing the project of building the Research and Development Center, and we are not excluding the implementation of our own acceleration program. We will consistently develop tools for acquiring innovations, as this will enable us to build a strong position not only in Poland, but also worldwide. ■

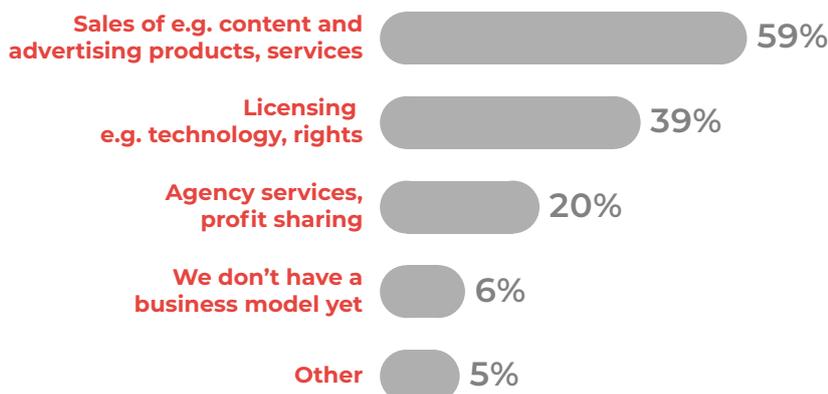


Patrycja Panasiuk
Deputy Executive Director for Strategy,
Innovation and Investor Relations,
PKN ORLEN

Startup managers were also asked to indicate three key words that best reflect the nature of their main product or service. The highest percentage, almost a quarter, indicated AI and machine learning. The second place was taken by such terms as: productivity and management (15%), followed by medtech and big data ex equo – in both cases 13% of the indications. One in nine chose such terms as: analyst, research tools, business intelligence, one in ten – industry 4.0, and almost one in ten – IoT, i.e. the Internet of Things. Each of the following words was indicated by 8%: fintech, insurtech, financial services, as well as martech and marketing technology.

Polish startups generate their revenues primarily by selling products or services – this model is used by 59% of them. A large proportion (39%) earn from licensing, e.g., for their own technology or rights, and one in five from agency services or profit-sharing. 6% of respondents have not yet developed their own business model.

What revenue models do startups use?



Where do startups raise their funds from?

When raising funds for the development of their business, as many as 80% of startups use their own resources – this is by far the most frequently chosen option. Some of them; however, in addition to investing their own funds, also raise them from external sources.

The Polish Agency for Enterprise Development (PARP) has been leading the way here for years, with one third of Polish startups (32%) already benefiting from its support. 16% of startups benefited from funding from another state institution – the National Center for Research and Development (NCBiR). One in four declares that they had the opportunity to benefit from the support of the national accelerator, one in five raised funds from a Polish venture capital fund, and 15% were supported by a national business angel.

Strategic investors are of surprisingly small importance on the market of Polish startups (3%). The same level of support is provided by bank loans, academic incubators or crowdfunding, which is still quite marginal in this segment.

Foreign support is proving less popular than domestic support, although it is the path that should be considered by those with global aspirations. However, the survey shows that the percentage of entities financed by foreign business angels, VC funds or accelerators oscillates around 3–5%.

What sources of capital have you used so far?



During a pandemic, **startups** do not slow down

When I sat down last year to write a commentary on the Startup Poland report, I had no idea how our lives would change over the year. My apartment and the apartments of many people around the world have turned into offices, classrooms, lecture halls, fitness clubs, restaurants. Our life has become poorer for missing out on meetings with our friends, and the main applications on our phones have become: Zoom, Teams and Meet. Networking moved to the cloud and industrial production stopped for a while. Projects started to drag on. And from this point of view, the new report is positive.

More than half of the startup managers cannot see any negative impact of the epidemic on their business. Well, more than 30% think that this impact is positive or very positive. Startups do not lay off people, they hire new ones and increase their revenues. They're looking for investors. Of course, the revenues are not great yet, but I believe they will grow. I look at it with joy and admiration.

I've always appreciated the adaptive skills of startups, their openness and the speed of pivoting. Of course, the answer to this is the sector that startups operate in. 85% of them deal with digital products or services, and only 15% develop physical products. This is the world now and these are the startups. When I contact industrial companies, I can see how often the pandemic affects their operations. After all, not everything can be produced online.

Before our very eyes, we can see a crazy and revolutionary rapid change and the infodemic that reigns around us. And it doesn't matter whether business theorists say that COVID-19 is the damn black swan or not, because in the end it was known that the pandemic would come back one day (because there were many of them in history, and futurologists warned, and writers and scriptwriters created stories that vividly resemble our year 2020). And this is the positive part of the report.

What's negative? Startups talk about problems with financing, insufficient role of the state in providing support. I can see two more things: the first one – a small scale of operations. Only 19% of the companies have received funding of over PLN 5 million. That is to say, more or less 81 companies that pretend to be the future of our country have not obtained funding of more than one million EUR. And the turnover. 63% of companies have revenues of less than PLN 50,000. So, let us not be afraid to say it – it is bad.

And here we all still have a lot to do: the funds, the state, large companies – also the treasury, but also startups. ■



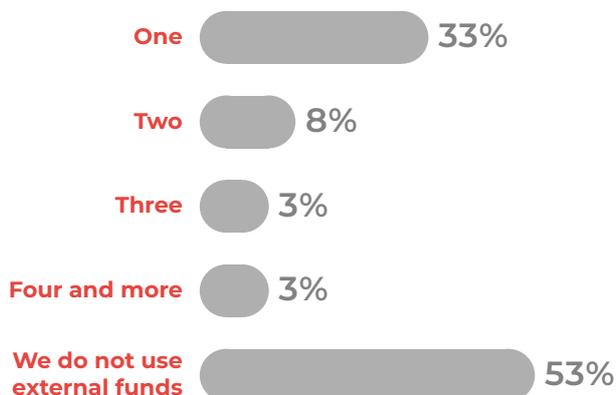
Bartosz Sokoliński
Managing Director for Innovation and
Technology Industry Development Agency



**Open
Innovation
Network**

Startups benefiting from external funds usually have one such round behind them (33%). Those who managed to win two rounds now account for 8%, three rounds were indicated by 3% of respondents. The same percentage of startups declares that they have had the opportunity to obtain at least four rounds of fundraising to date in their history.

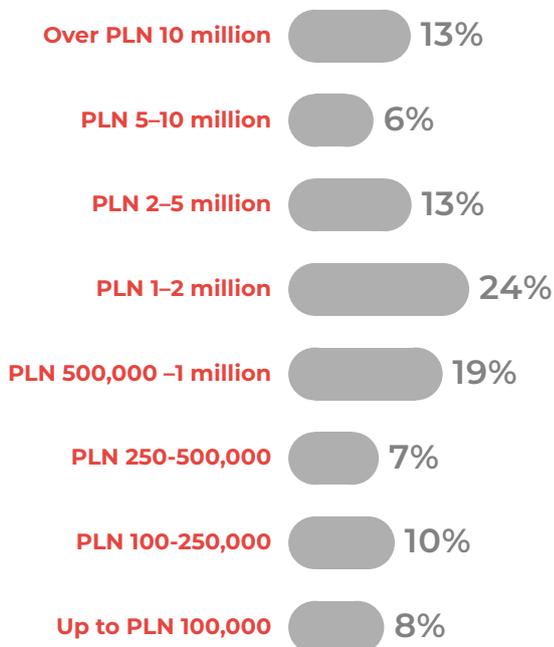
If you are using external funds, how many rounds of fundraising have there been so far?



The fundraising at the level of PLN 1–2 million appears the most frequently in declarations of startups (24% of respondents). One-fifth of them raised between PLN 500,000 and 1 million. The amount of over PLN 10 million in all previous rounds of fundraising was reached by 13% of startups. Comparing these data with those from previous years, it can be seen that every year there are more entities in which larger amounts are invested – in 2018 only 6% of startups

declared that they raised funds at the level of over PLN 10 million. In 2019, it was over 9%. These figures may not be very impressive when compared to Western markets, but the figures show that Polish companies that once operated at the seed stage are growing and entering the next levels.

What is the total amount of funds raised in all the rounds so far?



Most of the respondents have not registered their company in any database aggregating data on startups and investors so far. Only 17% of them took advantage of this opportunity. Among such databases, Crunchbase is by far the most popular one, which was used by as much as 78% of those companies that decided to register.

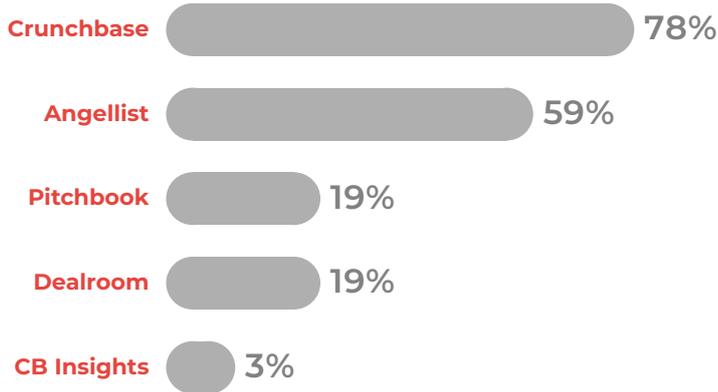
The second place is taken by AngelList base (50%). Every fifth respondent indicates PitchBook or Dealroom (19% each). 3% of startups are registered in the CB Insights database.

SHOW YOURSELF!
 2,700 startups
 100 VC funds

Add your startup to the Polish innovation ecosystem base

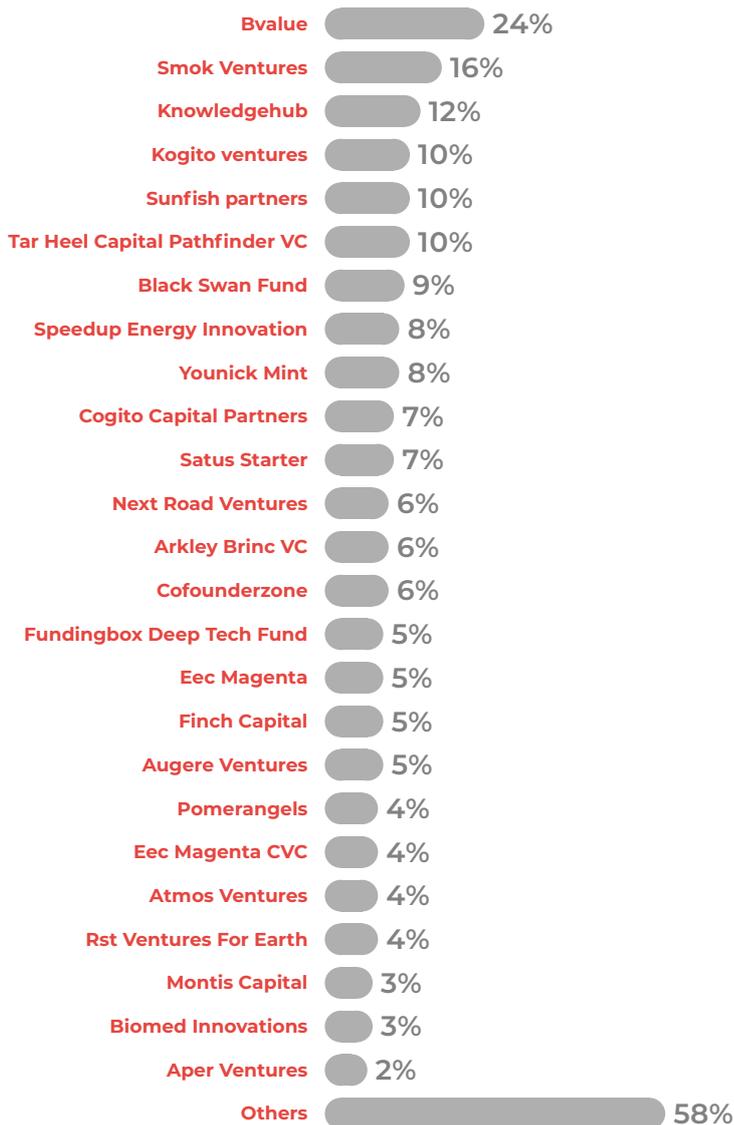
www.startup.pfr.pl/ekosystem-innowacji/

If yes, indicate which ones



When it comes to contacts between startups and VC funds, their popularity is fairly evenly distributed. Contact with bValue was most often indicated (one quarter of the answers). SMOK Ventures comes second (16%), followed by KnowledgeHub (12%) and Kogito Ventures, Sunfish Partners, Tar Heel Capital Pathfinder VC (10% each). Contacts with other VCs range from 2 to 8%.

Which of these VCs did you have contact with last year?³



³The list includes actively investing funds where PFR Ventures is the investor

The impact of the epidemic on VC funding



The year 2020 can be compared by startup founders to a roller coaster ride. The companies have experienced numerous turns, sudden nosedives and unexpected rises. According to the survey conducted by Startup Poland, opinions about this ride are very divided.

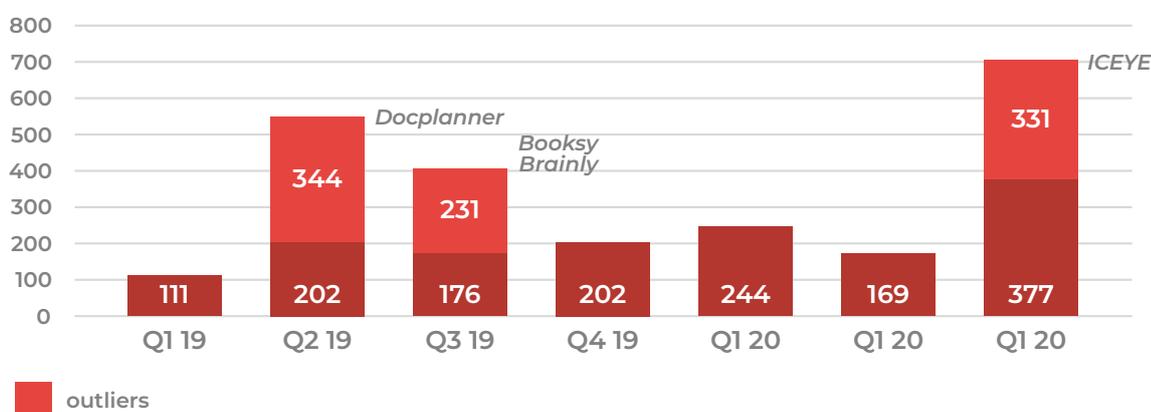
34% of startups believe that the global pandemic had a positive impact on their operations. A similar group speaks of a negative impact (39%) and a minimally smaller group has no opinion (27%). This even distribution of opinions shows that the impact of

COVID-19 on innovative companies has varied greatly and conclusions should be drawn on a case-by-case basis or by sector.

66% of entrepreneurs indicated that COVID-19 had a negative impact on the venture capital market. We monitor transactions on the domestic VC market on an ongoing basis. In quarterly terms we have observed a slowdown in investments in Q2 2020. Annually, however, we expect another record in terms of the value of funds invested in domestic innovation.

VC investments in Poland between Q1 2019 and Q3 2020

VC investments quarterly, PLN million

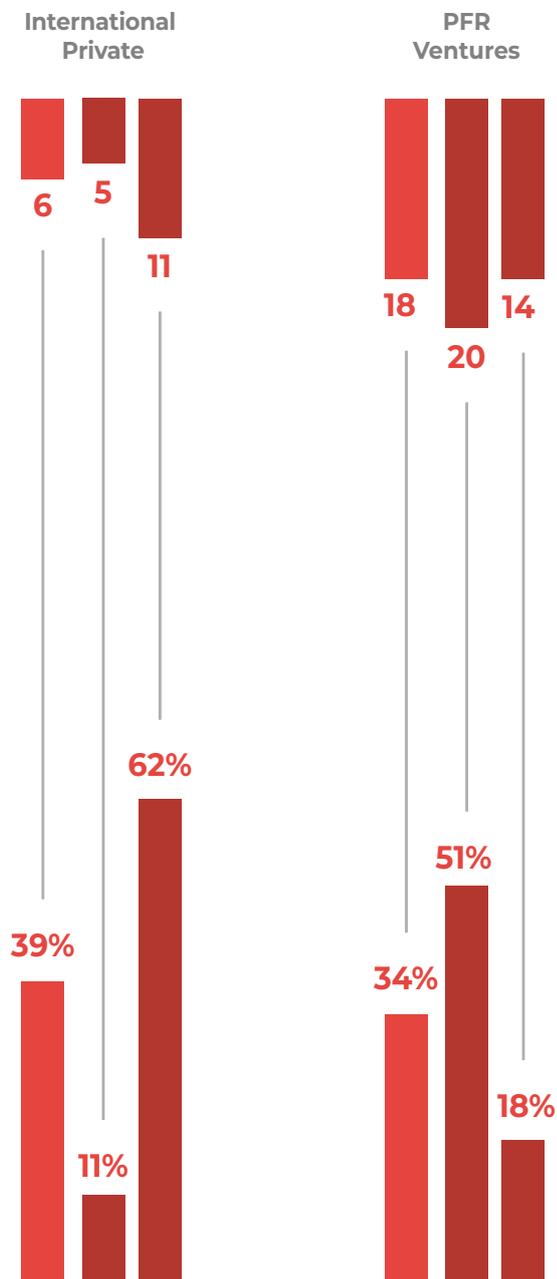


The data comes from PFR Ventures quarterly reports.

Taking a deeper look at the figures for that period: the funds supplied with PFR Ventures capital allowed a smoother transition through the moment when foreign teams decided to temporarily freeze their investments. Since the third quarter, we have been noticing stabilization on the Polish VC market.

Transactions in Poland between Q1 2020 and Q3 2020

Comparison of the number of transactions to their value (%) by source of capital



80% of startups indicated that they are developing with the use of their own resources, and 53% do not use external funds. At the same time, 42% declared that Poland is the biggest source of their revenue.

I think that the best of these projects will, however, apply to VC funds at the right time to start scaling up quickly enough or start expanding abroad.

The teams investing with support of PFR Ventures not only enable fundraising for seed projects, but also provide capital in rounds of over a dozen or several dozen million PLN ■



Maciej Ćwikiewicz
President of PFR Ventures

The trust of investors and customers pays off

Billon closed round A this year, and before that, two seed rounds with the involvement of business angels.

VC funds such as Rising Tide, Mencey Capital and individual investors from Poland, Europe, USA and Asia invested in the company. One of the investors was also FIS, a global leader in providing IT solutions for banking sector, which implements Billon blockchain technology in its own solutions. An invaluable role in fundraising for the company was also played by R&D grants from Poland (NCRD), the European Union (Horizon 2020) and the UK (Innovate UK).

So far, we have raised more or less USD 16 million, i.e., almost PLN 60 million, as well as additional USD 2.6 million in the form of convertible loan notes in the British Future Fund program.

Billon has always staked on the so-called smart money, i.e., investors who can contribute more than just fundraising. Our shareholders are kept informed about what is happening in the company and have a good, transparent relations with the management. These relations pay off today in the times of pandemic. We closed round A in mid-March when the threat of COVID-19 was already real all over the world. Our investors have undertaken all formalities and obligations, even when faced with the shock of the pandemic.

COVID-19 is a great challenge for company fundraising and customer acquisition, but it also provides new opportunities. The first wave of the pandemic delayed previously agreed projects and companies have put aside innovative projects that do not guarantee fast revenues. Fairs and conferences were

canceled, which considerably limited the possibility to reach customers in countries important for us such as: Great Britain, Germany, Austria or the United States. On the other hand, the world has accepted remote operations. Limiting travels in favor of remote contacts has saved time, which we can now use for implementation of further projects. Acceleration programs, bootcamp programs, etc., which for us are a proven way of looking for new customers and partners, have also moved very efficiently to the network.

Not only are meetings being transferred to the remote zone but also the entire business activity of companies. Their internal operations but also their relations with partners and customers have to undergo a complete digital transformation in a very short time. Companies are wondering how such relations can be kept remotely while retaining their legally binding nature and in compliance with demanding EU regulations.

Our solutions, which enable the digitization of business processes thanks to our proprietary blockchain technology, are practically ready for implementation. We can see a particular potential in electronic communication with individual customers and services for remote confirmation, conclusion and sharing of contracts and other documents, whose invariability and authenticity is crucial. ■



Jacek Figuła
Chief Commercial Officer
Billon Group





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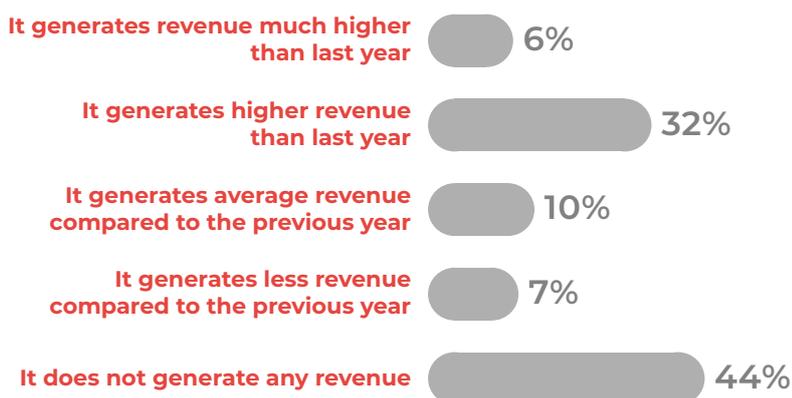
THE CURRENT STARTUP SITUATION – REVENUE

How did COVID-19 affect revenue?

As many as 44% of the startups surveyed declared that they do not generate any revenue at the moment. This is a pretty large percentage. On the other hand, the positive news is that if a startup already earns money, then now, in the pandemic, its revenue is usually higher than a year ago – 38% earn more than in 2019, of which 6% are recording much higher revenue year on year.

Every tenth respondent declared that this year's revenue was average compared to the previous year, and only 7% recorded a decrease in the period under analysis. Considering the general market situation and the huge problems of many industries, it can be seen that the startup sector is doing quite well on the market.

Is the startup currently generating revenue?



The average level of monthly revenues of startups in the first half of 2019 was usually up to PLN 10,000 (16%) or it ranged from PLN 10 to 50,000 (12%). In the same period of 2020, the same level of revenue is declared by 23% and 13% of respondents respectively. The percentage of companies earning between PLN 50,000 and 100,000 has doubled (increase from 4 to 8%), there are also more entities declaring revenues of PLN 200,000–500,000 (increase from 4 to 7%). In the first half of 2020, one in a hundred startups generated average monthly revenue of over PLN 1 million. It can be seen that the spring lockdown did not prevent Polish startups from generating more revenue than before the pandemic.

Provide the average level of monthly revenue for the first half of 2019



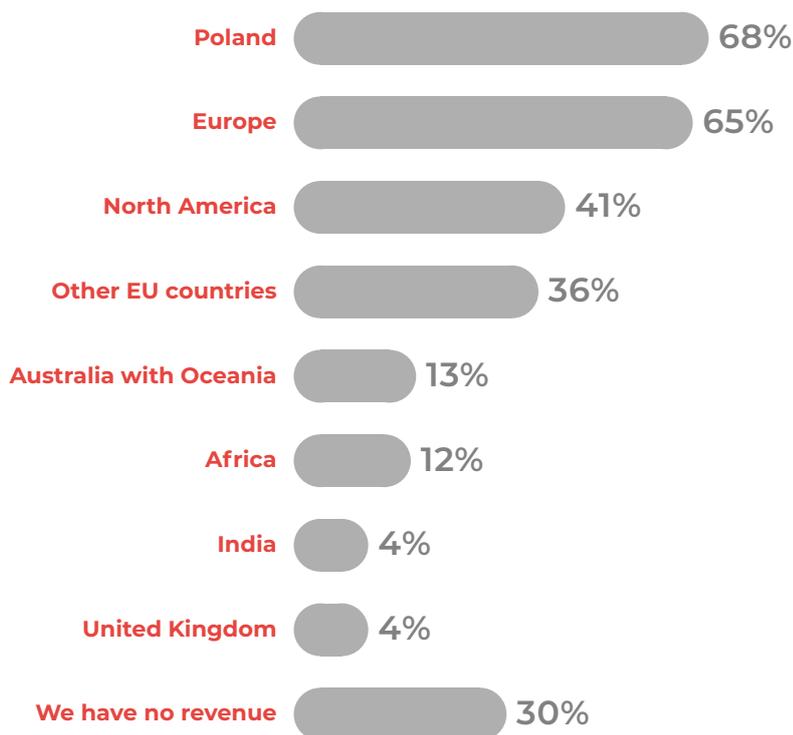
Provide the average level of monthly revenue for the first half of 2020



In terms of business analysis by geography, the data show that by far the most frequently (42%) Polish startups generate the majority of their revenue on the domestic market. In the case of those preparing for foreign expansion, the largest part (20%) indicates Europe. According to experts, there may be many reasons for this: logistics, market knowledge, cultural similarities.

Startup founders largely choose well-known countries, but often they overlook the places with the greatest potential – only 4% indicated that they generate most of their revenue in North America. The rest of the world accounts for a very small percentage of total business. Unfortunately, the COVID-19 pandemic certainly does not facilitate further expansion abroad.

In which region do you generate the highest revenue?



Remote Fundraising under the Remarkable Conditions of the Coronavirus

During the coronavirus pandemic, we raised EUR 2 million from investors for development of SunRoof, a startup building 2-in-1 solar roofs and developing solutions that support intelligent energy management. When we started the fundraising process, in addition to adapting our strategy to the new situation and slowing down the most aggressive activities, we decided to see whether our company's valuations by the funds would be high enough. If investors would not want to invest in SunRoof with a satisfactory valuation, we would reduce the amount of funds we wanted to raise to improve the company's liquidity anyway.

And as far as operational issues are concerned, we added a slide in the pitch deck, which described how we were adapting the company

to the current situation. This could involve a change of strategy, a pause of activities such as recruiting or entering new markets, or maybe postponing the purchase of additional equipment. We will not build up stocks or stock up on our warehouses, and we prefer to buy at higher prices for the moment so as not to freeze up too much cash in goods.

Although the funds were more cautious about new investments than ever before, in our case they very quickly believed in SunRoof and the experienced team co-founders. The declaration from the first investor, SMOK Ventures, appeared within an hour of sending the first pitch deck. It was a unique round, conducted completely remotely, without meetings and closed with contracts signed electronically.

The uncertainty of the pandemic has led funds to divide companies into:

1. companies with funds in their account – maybe they have just closed the round recently and have their cost base under control. This is the best situation and these companies do not need immediate attention;
2. companies with good foundations (strong team, product, growth), which, however, are slowly running out of funds and were about to start fundraising – these are the companies that should be quickly caught and supported by the funds (SunRoof was in this situation);
3. companies that have a good team and product but have burned their budgets too quickly and will be forced to reduce – those will need financial support, but are in a high risk group. If everything goes well and the markets start to bounce, some will survive;
4. companies where there is no money and sales have fallen sharply – those have little chance of surviving.

I know of funds that have been very quick to act and started to support their portfolio companies. One of the simple and quick actions implemented by some of them was the organization of a webinar for company founders, during which the fund showed its perception of the situation. It let them know what to expect and what to pay attention to. As a positive sign, it should also be noted that some accelerators, which until now operated locally, have switched to remote operations and have opened up a lot of their existing area to startups, opening up new options for cooperation. ■



Lech Kaniuk
CEO, SunRoof

Polish logistics is beginning to be noticed by foreign contractors

COVID-19 contributed to online orders skyrocketing and the development of e-commerce has accelerated dramatically. As a result, logistics operators who manage online store operations like Omnipack also started to grow strongly. Like most companies in the industry, our situation during lockdown changed dynamically. We had additional challenges, as we were preparing to enter the DACH (German, Austrian and Swiss) market, opening two new warehouses in Nadarzyn (an additional 6,500 m²) and Gorzów Wielkopolski (6,500 m²), all while developing a new website in three languages and implementing a new warehouse system.

This sudden turn of consumers towards online shopping in the first half of the year

meant that fulfillment started to gain significantly in value. We filled the new warehouse space in 2 months, and we assumed it would take 9 months. Although it is not yet a popular service in Poland, as 30% of entrepreneurs use it, we can observe a significant increase in interest compared to last year. We are closing the Q3 of 2020 with a result of over 125% growth in relation to 2019. We forecast that in 3 years, the percentage of Polish companies outsourcing order processing and warehousing to an external partner will double, as entrepreneurs become more aware of customer needs and market standards. They are looking for ways to improve the quality of operations, free themselves from staff turnover, optimize working time and costs. A specialized logistics operator such

as Omnipack frees the e-shop from operational activities and additionally protects it from sales peaks, e.g., during Black Friday or Christmas.

The fact that Polish logistics is beginning to be noticed by foreign contractors is encouraging. Our advantage is our central location in relation to the rest of Europe, the presence of key KEP entities (couriers, express deliveries and parcels) and access to a qualified and relatively cheap labor force.

These benefits are used by large, foreign players, mainly from Western Europe and Scandinavia. Examples include Amazon and Zalando, which use Polish warehouses to handle shipments to individual customers. Taking into account the trends, it can be concluded that fulfillment in Poland has great prospects. Its benefits are noticed by most stakeholders, and skeptical sellers can change their minds within a few years. Much will depend on the operators themselves, who still have a lot to do in terms of market education. ■



Tomek Kasperski
CEO, Omnipack

How did COVID-19 affect fundraising?

While the coronavirus crisis had much less impact on the functioning of business among Polish startups than in most other segments of the economy, the pandemic left its mark in another area. Many startups at the time of its outbreak were in the process of talks about fundraising (43%). Has this coincidence of events contributed to the breaking or suspension of further talks?

Were you in the process of raising funds when the coronavirus pandemic started?



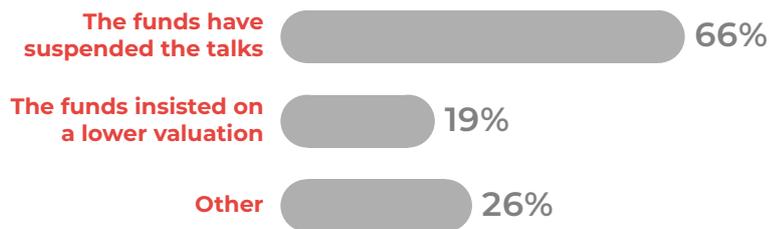
When it comes to assessing whether the coronavirus pandemic had a real impact on the fundraising process, startups are divided into almost two equal groups – 49% believe that the impact was felt, while 51% believe that it was not.

Do you think that the coronavirus pandemic really affected the fundraising process?



Unfortunately, the impact of the pandemic on those affected was very negative. As many as two thirds of them (66%) declare that during the crisis the funds stopped the talks (which does not mean that they will not return to them). Nearly every fifth startup (19%) met with pressure from the funds with which they were conducting talks at the moment, on a lower valuation than originally.

If yes, how?



Selective investment in startups

When answering the question in the latest report “Polish Startups 2020. COVID Edition” about how you assess the market changes in terms of startup financing, 37% of the startup founders surveyed responded that it was becoming increasingly difficult to find financing. So you can see that the concerns of the startup environment are great in this regard.

The beginning of the pandemic stopped the VC market in Poland and made most investors decide to stop the transactions, but there were also those who adopted the opposite strategy. The investors have not disappeared from the market, but they have slowed down with new ventures. Biotts SA, which I represent, was among the very narrow group of startups, which during the COVID period received funds for the development and commercialization of technologies created at Biotts.

We successfully conducted a fundraising round with Montis Capital fund and raised over PLN 7 million. It should be noted, however, that we have two large license contracts with American biotechnology companies, i.e. the commercialization process at Biotts has started at full speed this year. In these complicated times, business wisdom is just as important as innovation, which allows to assess the situation from a different perspective. Investors certainly act more selectively, which does not close the possibility of receiving funds. However, the fact is that money is more expensive, more difficult to access and on worse terms. Investors are aware that financially this is a complex moment and therefore they choose their partners more accurately and carefully.

Above all, it should be remembered that the process of raising funds is very time-consuming and takes many months. At Biotts we started talks with the funds in early 2019 to complete the transaction in April 2020. The pandemic period challenged companies to implement completely different tools to attract investors and customers than the period before COVID-19. We all had to learn how to make virtual relations very quickly, which is undoubtedly more difficult than meeting and talking “face to face”. Today, this is becoming an everyday normality and we are probably getting more and more agile every day to effectively achieve our goals, both in the area of investment and sales. ■



Karolina Buratyńska
General Manger Biotts SA

Let this special edition of our publication be a source of valuable information for representatives of the public sector, corporations and investors on innovative entrepreneurs operating in Poland and a point of reference for analyses, business decisions or draft legislation that will help to defeat the common enemy that is COVID-19.



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