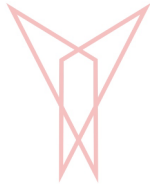




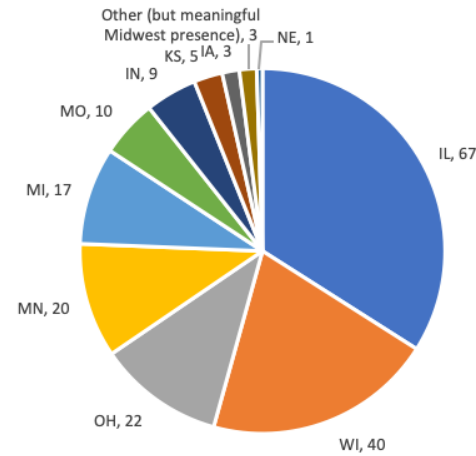
# Midwest Startups During COVID-19: CEO Survey Results

May 2020

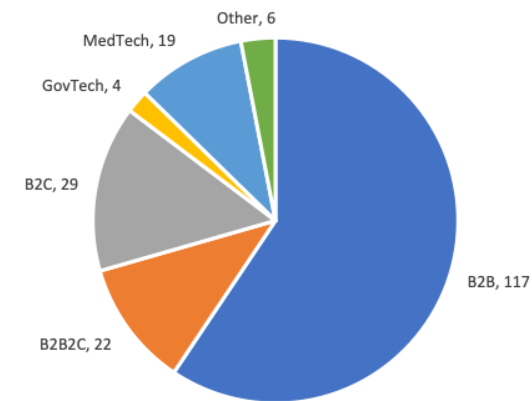


# Survey Respondents (n=197) | April 24 to May 5

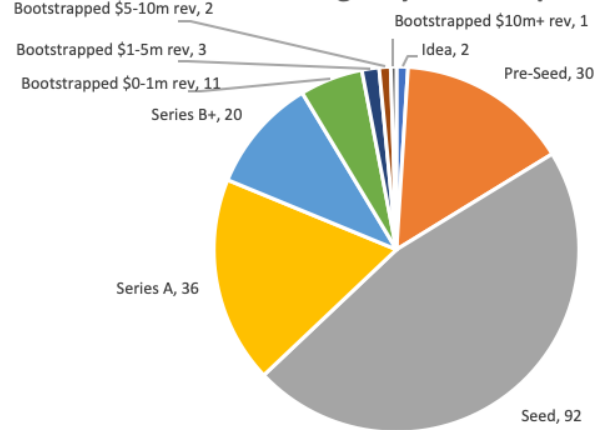
**In what state is your startup based?**



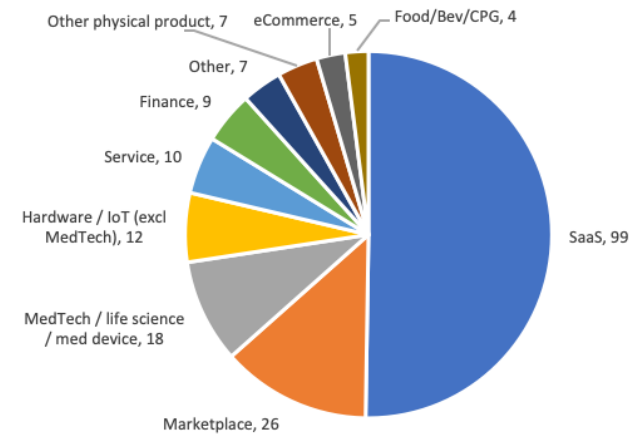
**Primary End Market**

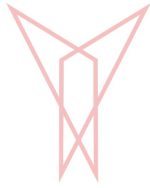


**What stage is your startup?**

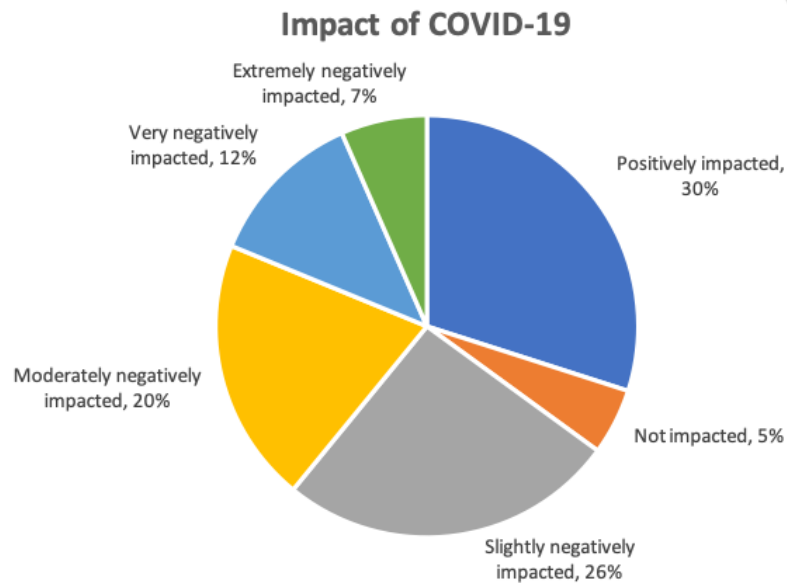


**Business Model**



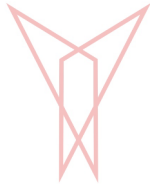


# Impact of COVID-19

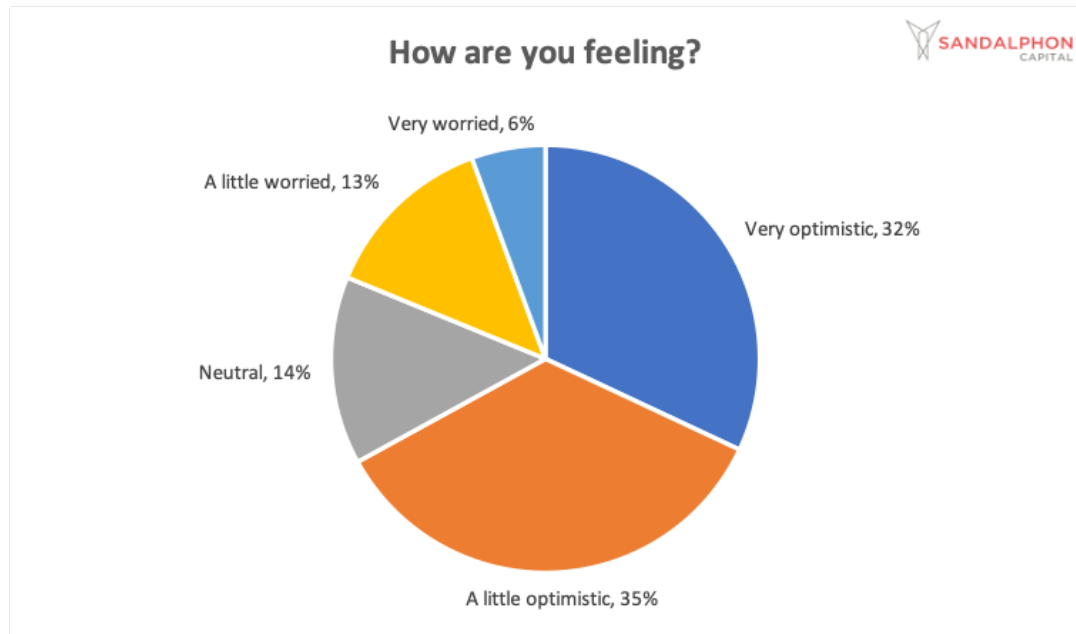


Over 60% of the startups surveyed have been positively-to-slightly negatively impacted, and only 19% very or extremely negatively impacted.

- Of the 59 startups positively impacted, 49% of these report that their revenue has increased, 19% report flat revenue, and 19% are pre-revenue.
  - 56% percent of these companies report that their pipeline or revenue outlook for the rest of this year has increased, 14% see no change to their 2020 outlook, and 10% see a 0–20% reduction in expected revenue this year.
  - The median runway of the positive cohort is 12 months.
- Of the 19% very or extremely negatively impacted, 22% of these are pre-revenue and half have seen revenue declines of 40% or more.
  - Their median runway is 6 months.
- 45% of B2C respondents and 30% of B2B respondents have been positively impacted. Enterprise B2B has fared better than SMB-focused.
- MedTech and B2B selling to SMBs have been the most negatively impacted: 47% and 60% of them were moderately to extremely negatively impacted, respectively.

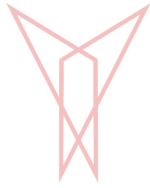


# CEO Sentiment

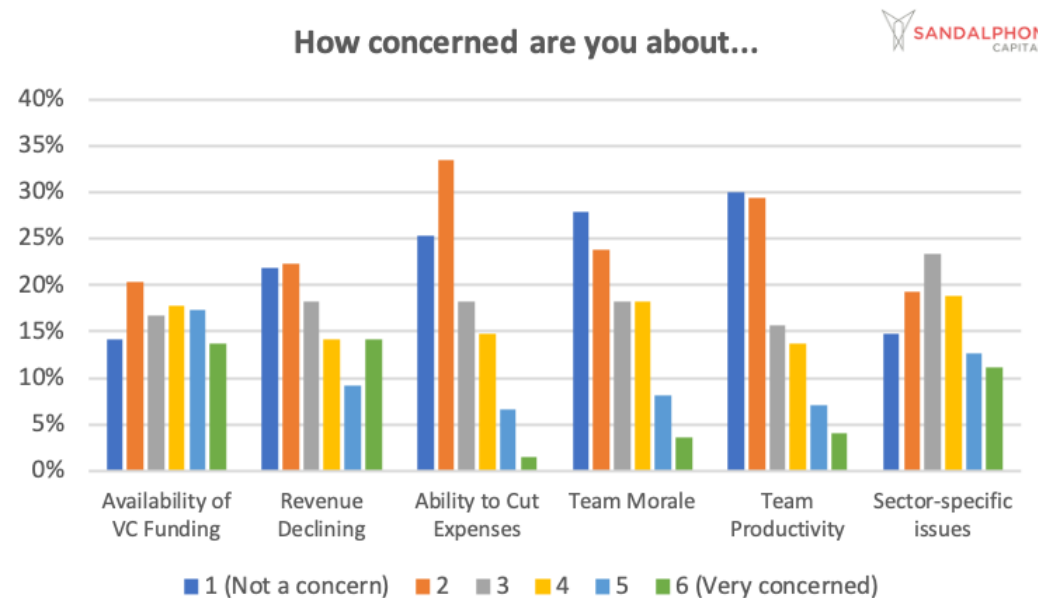


Two-thirds of startup CEOs are a little-to-very optimistic despite this challenging environment.

- Optimism versus worry generally maps to the extent of revenue increase or decline, as you might expect. Optimists (a little-to-very optimistic) are expecting quicker recovery: on average 4 months quicker than those that are a little-to-very worried.

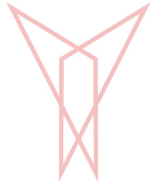


# CEO Concern Scores

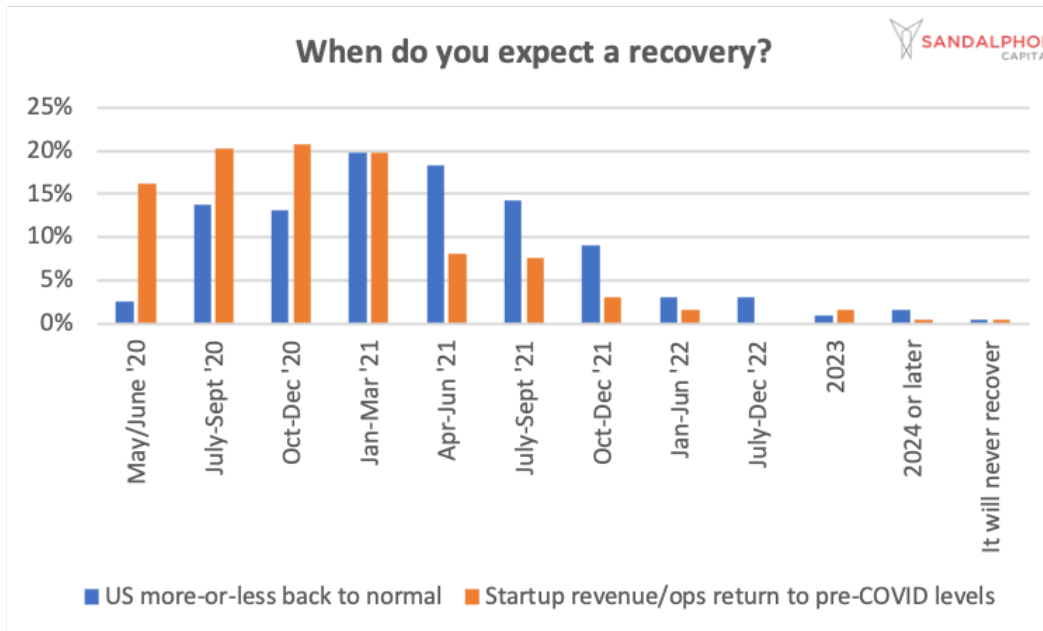


Availability of VC funding is not yet as big a concern as expected. Within the 51% of respondents scoring it a low concern median runway is 12 months (16% of them are profitable) while the higher concern group has only 8.5 months of runway.

- VC funding is not a concern for bootstrappers (9% of respondents) and is low concern for 70% of the 20 Series B stage respondents.
- Pre-Seed to Series A stage were split approximately fifty-fifty, presumably based on their particular circumstances.
- Revenue declines and sector-specific issues are idiosyncratic to any particular startup's business model or area of focus, but in general the concern scores are relatively moderate (mean of 3.1 and 3.3 respectively). We expect this is due to given the temporary nature of these headwinds in most cases.
- Ability to cut expenses is not a concern with 77% of CEOs scoring this 1-3.
- The vast majority of startups seem to have adapted well to working from home with 75% scoring team productivity from 1-3.
- Team morale is holding up well, with 70% scoring it 1-3.

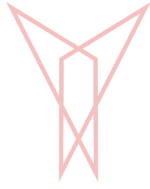


# Recovery Timing Estimates

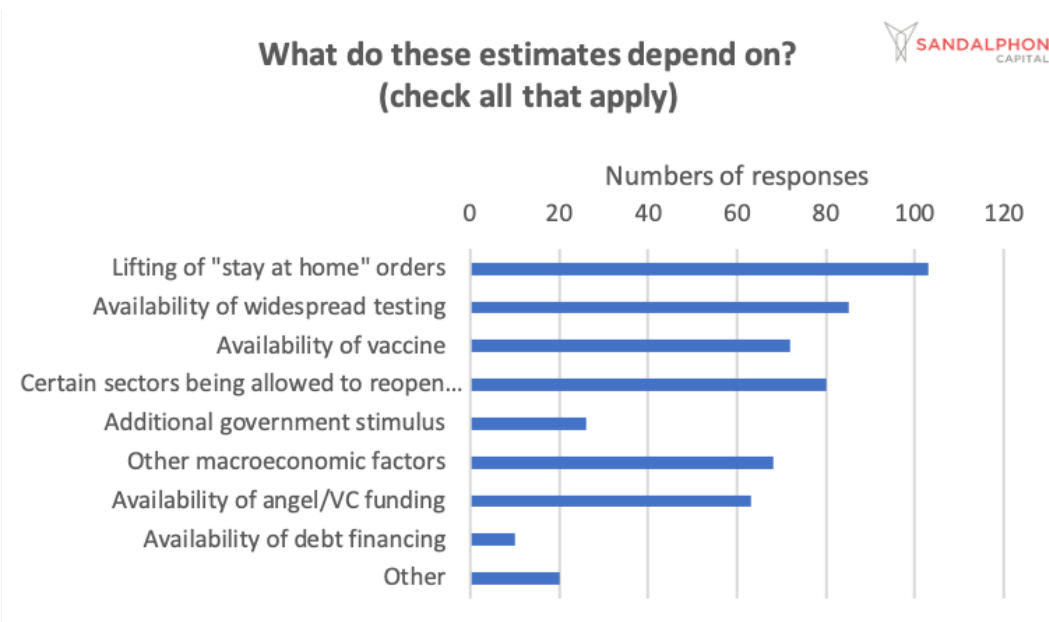


When do you expect the impact of COVID-19 on the UNITED STATES to more-or-less pass? If your revenues or operations have been impacted, when do you currently expect those to return to pre-COVID levels?

- 29% of CEOs expect the US to return "more-or-less back to normal" during 2020, 61% during 2021, and 6% in 2022. They expect an average of four more quarters until a recovery.
- 57% expect startup revenue or operations to return to pre-COVID conditions this year, and 39% during 2021.
- On average there is an expectation that startups will recover approximately one quarter prior to the US overall.

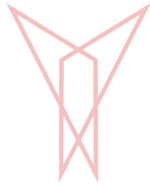


# Conditions for Recovery



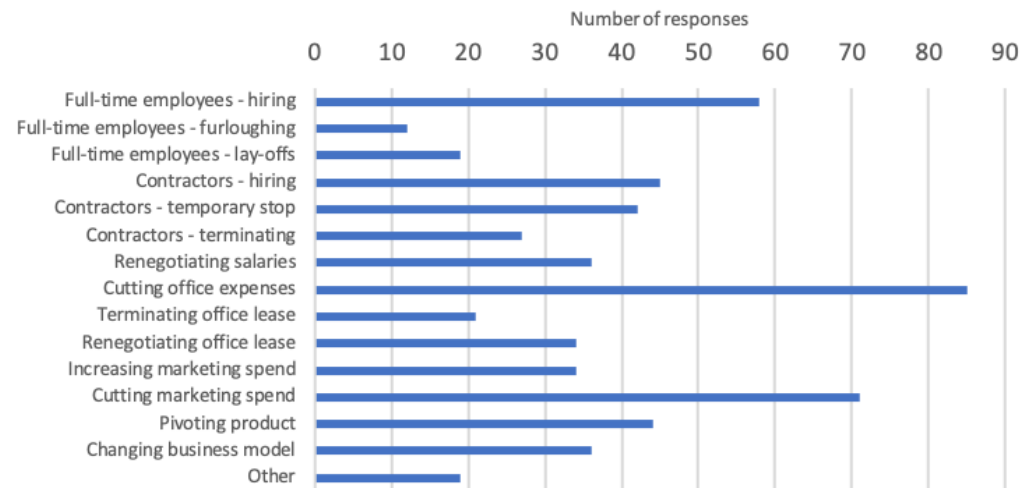
On average, the prior recovery estimates depend on 2–3 conditions.

- Lifting of stay-at-home orders, availability of widespread testing, and certain sectors reopening are the most commonly cited factors.
- Over a third do see a vaccine as being important to meet their recovery expectations.
- Other reasons provided include a general return of economic confidence, unfreezing of purchasing decision-making processes, successful executions of pivots, and some sector-specific issues e.g. schools reopening, or hospitals returning to offering full services.
- There was also some concern expressed that opening states too early might backfire.



# CEO Actions Taken

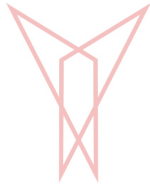
What actions are you taking? (all that apply)



CEOs are cutting office-related expenses and marketing spend, but also still hiring in many cases.

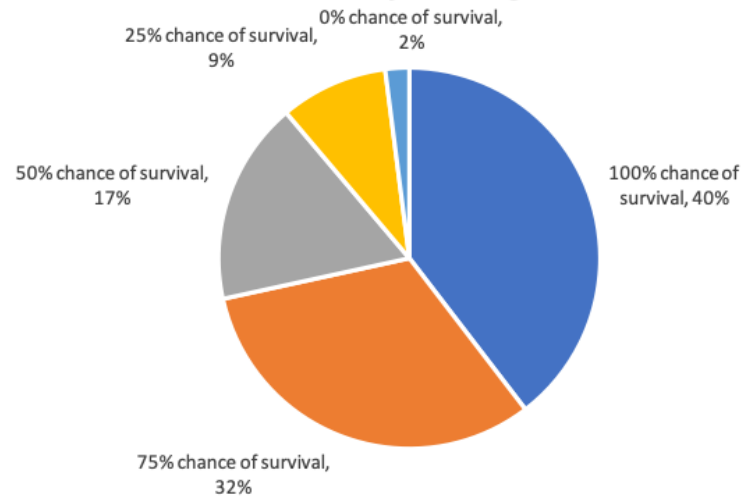
- Office expenses have been cut by 43% of respondents. 17% are already renegotiating their lease, and 11% are terminating.
- 36% are cutting marketing spend.
- 29% are hiring full-time employees, and only 10% are conducting lay-offs and 6% are furloughing full-time staff.
- As you would expect, contractors are seeing higher volatility in demand than full-time employees.
- 22% are pivoting their product and 18% are changing their business model.
- Other changes cited include adding lower price tiers, renegotiating contracts, expanding to other verticals, reducing founder salary, shifting but not cutting marketing spend, adding unpaid positions, and trying to establish remote hiring methods and processes.





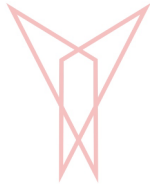
# Survival Risk

**If current conditions persist (or worsen) for 3-6 months is there a risk that you will go out of business?**

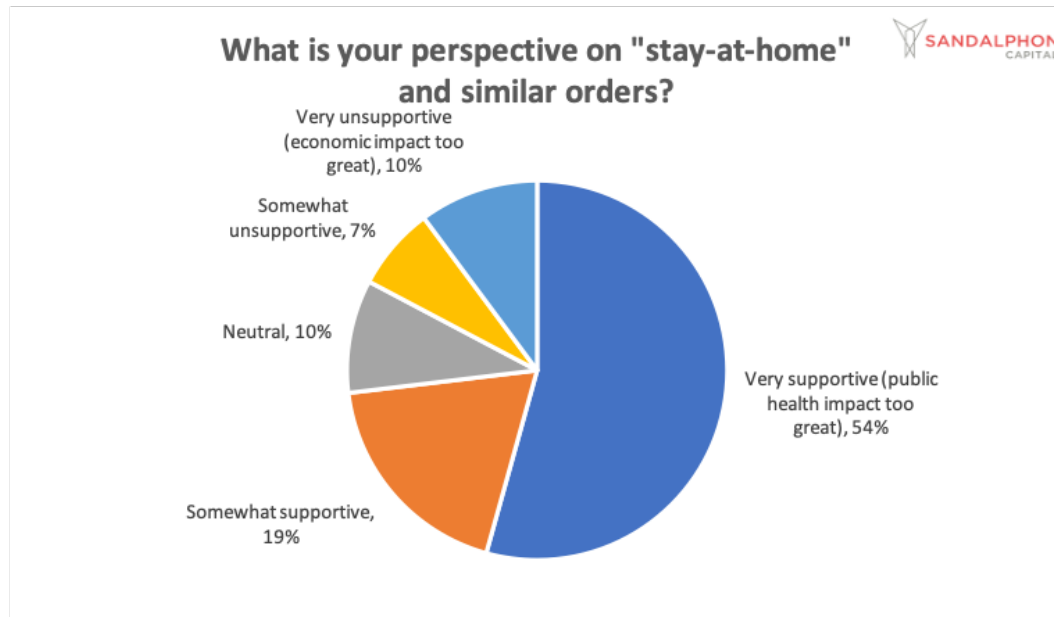


72% expect a 75–100% chance of survival if conditions persist (or worsen) for 3–6 months.

- Almost a third put their chances at worse than a coin-toss.

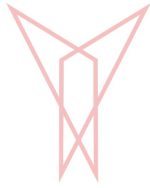


# Stay-at-home Orders



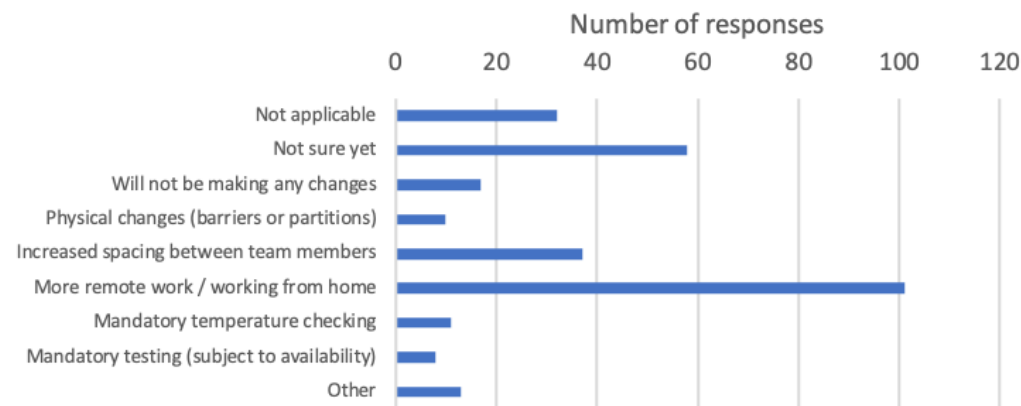
73% of the CEOs are somewhat-to-very supportive of the stay-at-home orders, more than four times those that are somewhat-to-very unresponsive.

- There is no clear pattern to how supportive CEOs are based on any other factor in the survey, suggesting that in general they are not letting their own personal circumstances dictate their view on this too much.



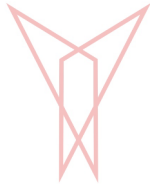
# Adapting the Workplace

**What changes are you planning to make at office when stay-at-home orders are eased?  
(check all that apply)**



Remote work is here to stay in many cases (half of respondents). A few were fully remote already, others noted that they are considering staying remote or allowing a transition period.

- We failed to include "providing or requiring PPE" as options, but one noted that it would be required when interacting with the public, and another for in-person meetings.
- Almost a third are "not sure yet" and likely need further guidance.

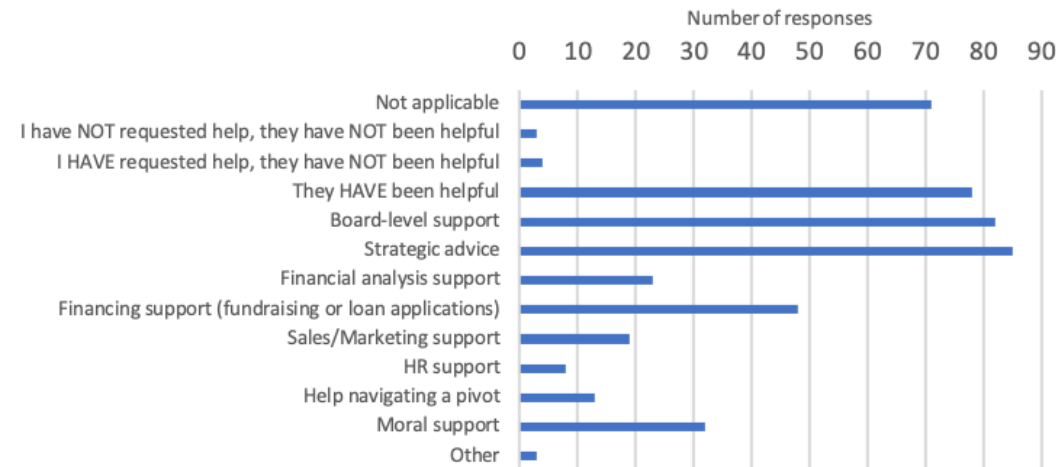


# VC Support

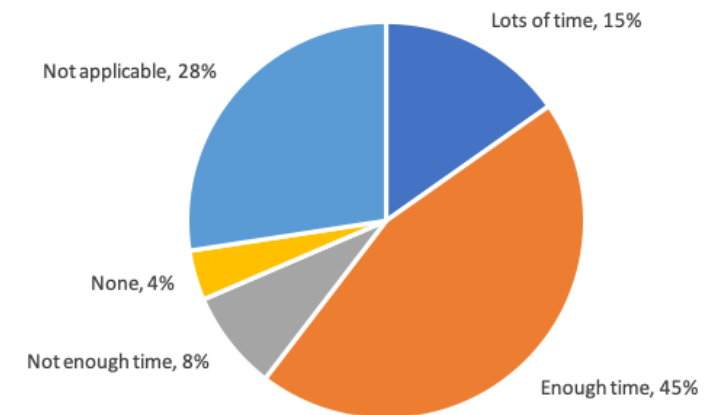
Of the 126 respondents this was applicable to, 62% have found their VCs to be helpful, primarily with board-level support and strategic advice, as well as support for current fundraising efforts or loan applications.

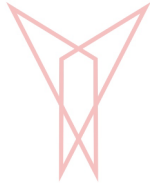
- 83% of startup CEOs have found their investors have been able to spend "enough time" to "lots of time" with them.

**If VC-backed, how have your investors been helping during this time? (check all that apply)** SANDALPHON CAPITAL

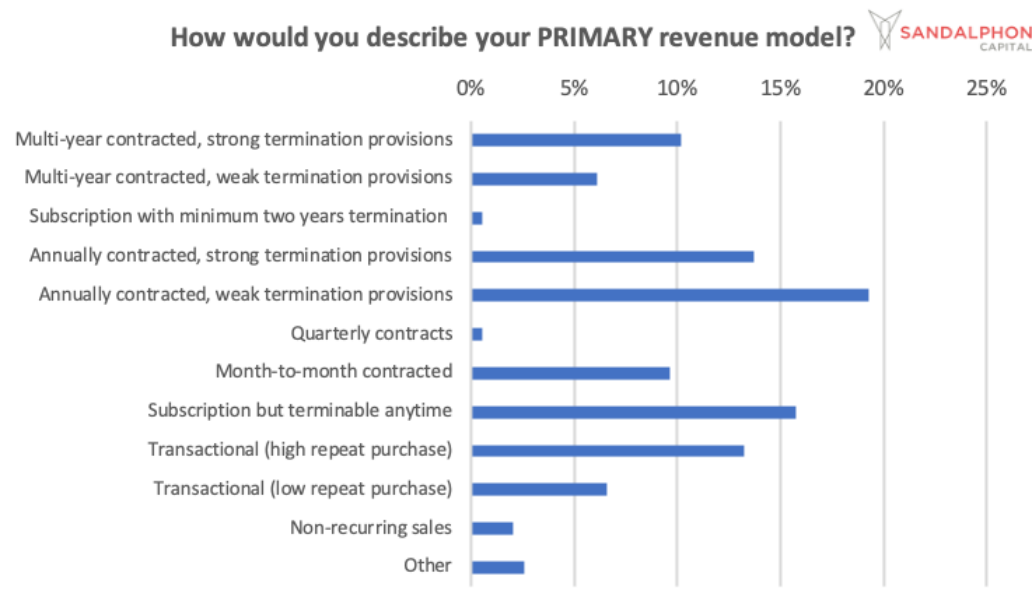


**Have your investors been able to spend enough time working with you on current challenges?** SANDALPHON CAPITAL



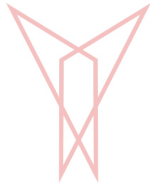


# Revenue Impact | Revenue Models

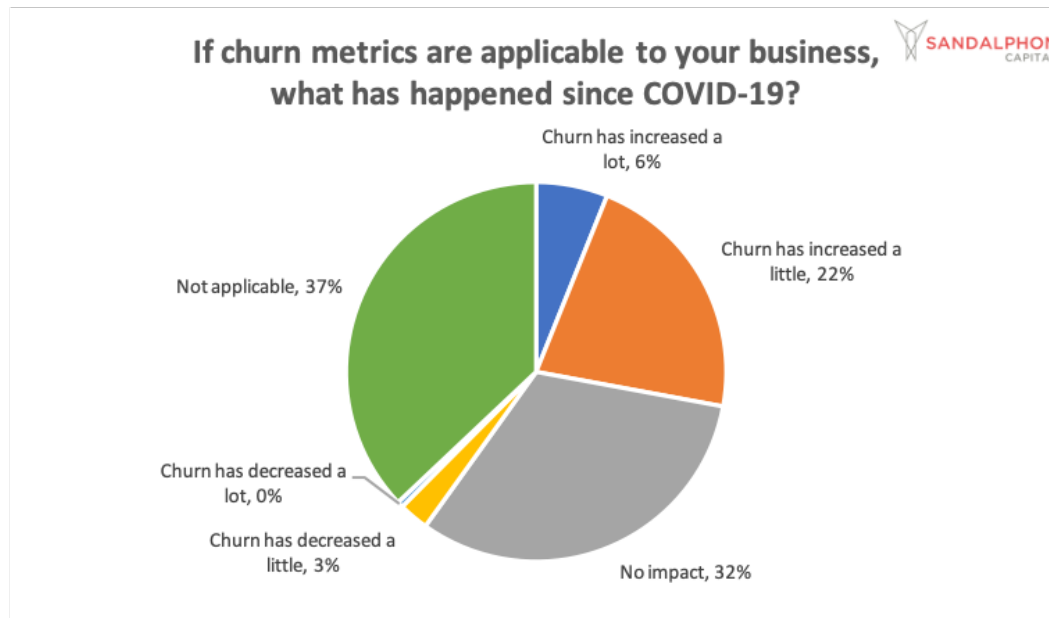


To put the following slides on churn and revenue impact in context, survey participants reflect a range of different business models.

- The intent is not to suggest any particular revenue model is more or less superior or appropriate, only to highlight the differences.

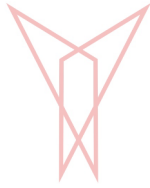


# Revenue Impact | Churn



There has been an uptick in churn for under one-third of respondents

- Of the 12 that reported that churn has increased a lot, a third have annual or multi-year contracted revenues.
- Of the 43 that have seen churn increase a little, two-thirds have annual or multi-year contracts.
- Churn was up (a little to a lot):
  - in 44% of the 27 annually contracted businesses with strong termination provisions and 29% of the 38 annually contracted with weak termination provisions.
  - in 20% of the 20 multi-year contracted businesses with strong termination provisions and 33% of the 12 with weak ones.
  - in 37% of the 19 month-to-month contracted businesses and 35% of the 31 subscription businesses that can be cancelled at any time.

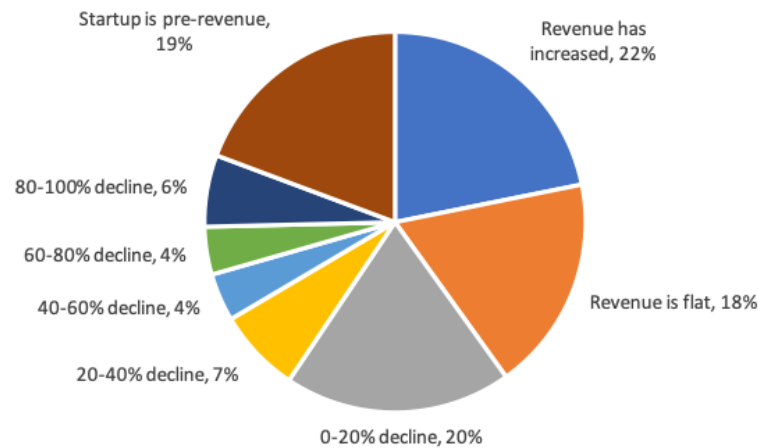


# Revenue Impact | Extent of Declines

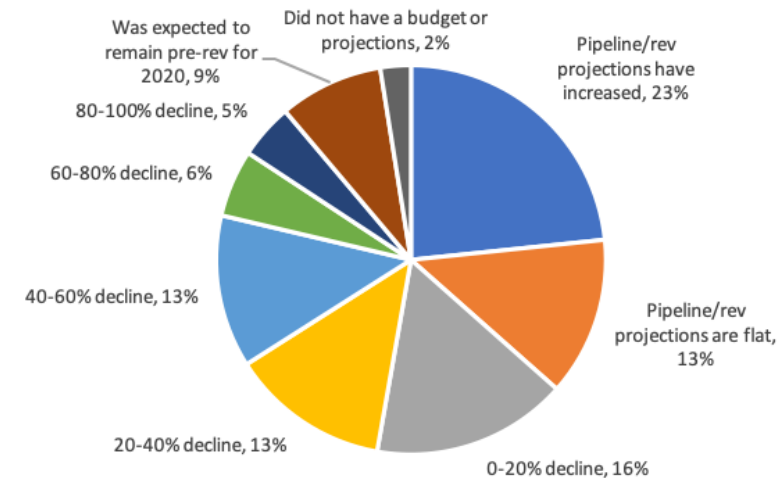
19% of those post-revenue with multi-year contracts with strong termination provisions have seen revenue declines, but none down more than 40%.  
73% of multi-year contracts with weak termination provisions have seen declines, with 45% down 40% or more.

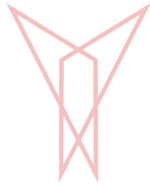
- Annually contracted revenues performed around the same regardless of termination provisions, with half seeing declines, and 16% seeing declines of over 40%.
- 63% of those post-revenue with month-to-month contracts saw declines, but none down 40% or more. However, 59% of those with contracts terminable any time saw declines, with 36% of them down 40% or more.
- The outlook for the rest of this year is very mixed based on the idiosyncrasies of any given startup.

**Estimated revenue impact of COVID-19 so far  
(approx % change from estimated "runrate" revenue)**



**Estimated impact on projected NEW sales (bookings)  
for the rest of 2020 (approx % decline to budget/projections)**

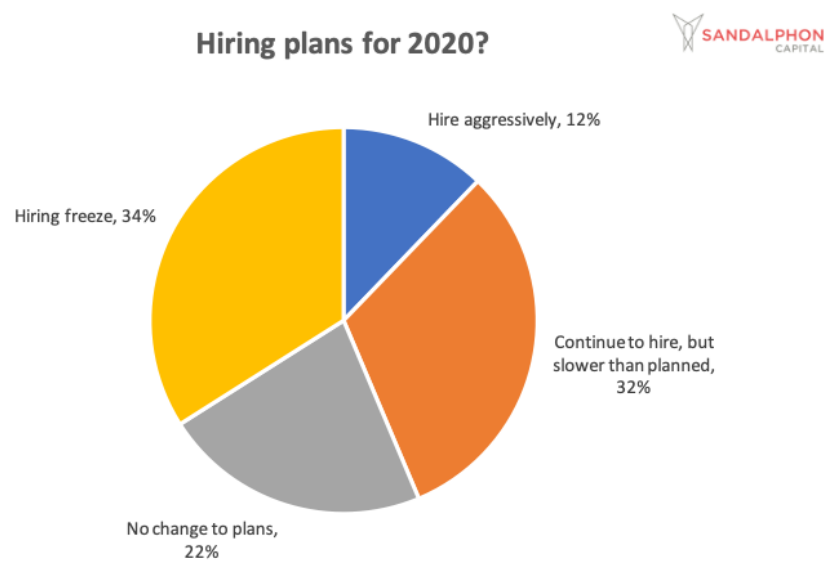




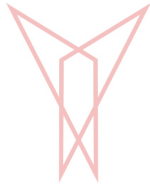
# Headcount Impact

Despite the headlines of job losses which typically relate to much larger startups, only 15% of respondents have furloughed staff and 13% have made lay-offs. 78% have not taken action yet.

- For those that have made cuts, they have been deep, with a mean reduction of 9.4 FTEs or 60% of their headcount. The median reduction is only 3 FTEs given our survey is skewed towards smaller, early stage companies.
- Only one third are at a full hiring freeze for 2020, with another third continuing to hire but at a slower pace.
- Over a third are hiring now and another 35% plan to (re)hire within the next 6 months.

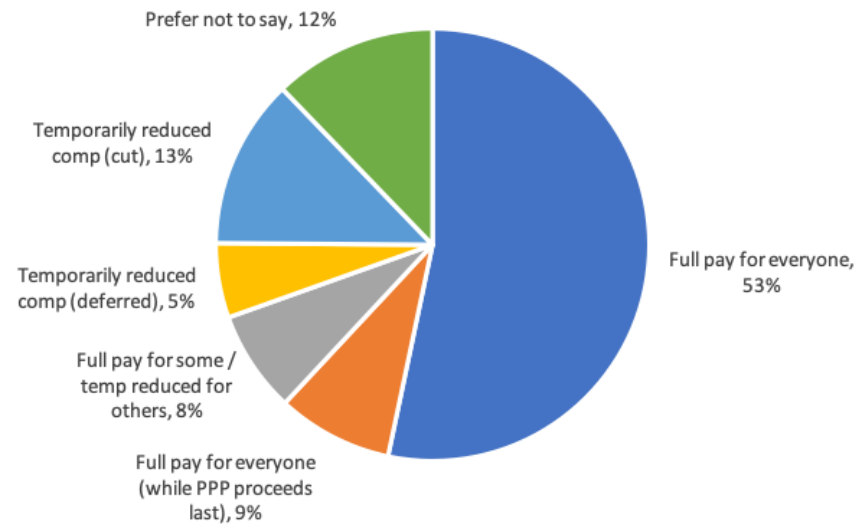






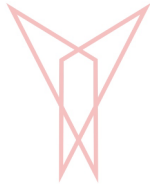
# Compensation Impact

For those that you have retained, are you paying... 



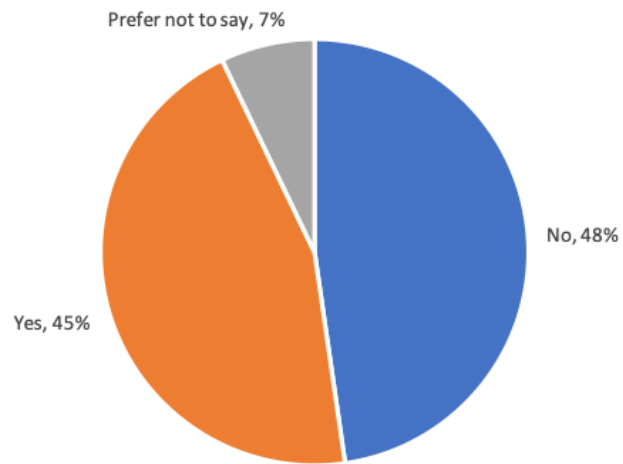
Just over half have been able to maintain full pay for everyone so far, but this varies greatly by the particular circumstances of a startup or its team.

- In general it seems headcount reductions have been lower than expected due to temporary salary reductions.



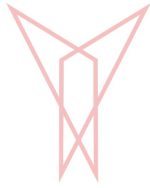
# CEO Compensation Impact

Have you reduced your own compensation?



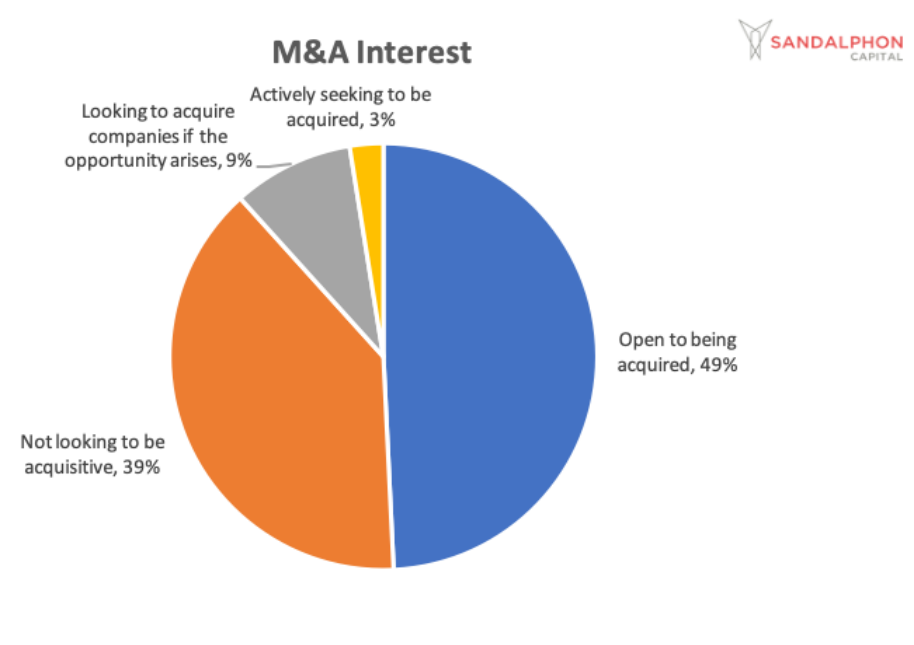
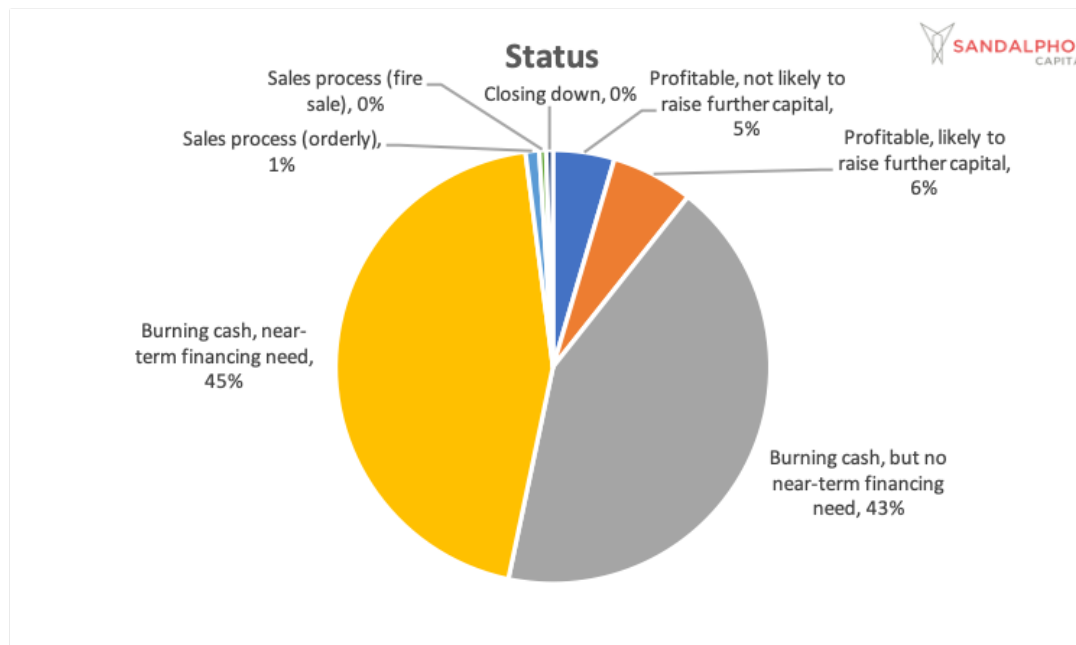
Around half of the CEOs have already reduced their own compensation with others indicating in the comments that they will be doing so soon.

- As you might expect, this generally corresponds to revenue impact and length of runway.

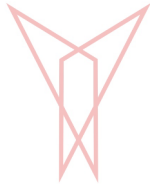


# Fundraising Impact | Startup Status

To put this section in context, the vast majority of startups are burning cash but near-term financing needs vary greatly



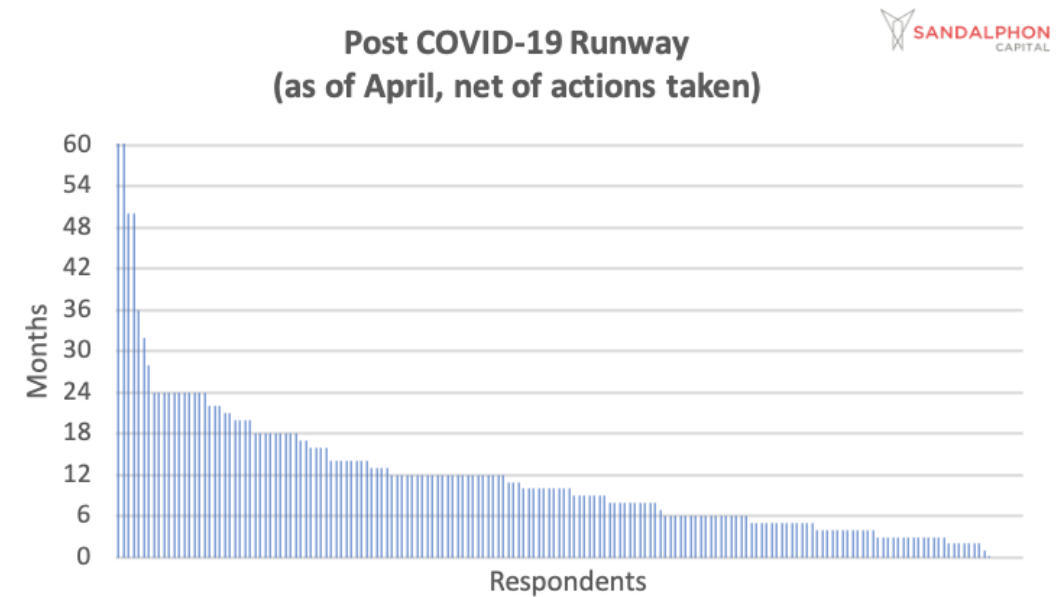
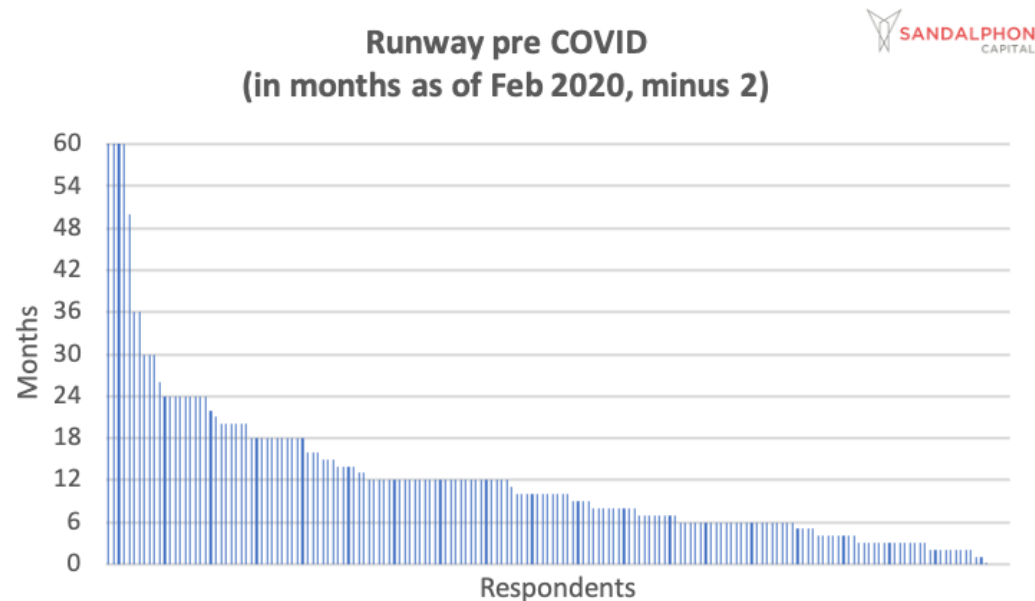
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# Fundraising Impact | Runway

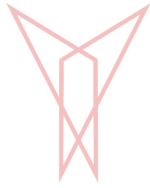
Median runway as of April after the impact of COVID and taking actions was 10 months (mean of 11). 36% have a runway of under 6 months, and another 27% 6–12 months.

- Median runway pre-COVID, as of February, was reported to be 12 months (mean of 13) so, with two months passing as of April, it would also be 10–11 months excluding any impact or actions taken. This suggests that in the aggregate the impact of COVID and actions taken have netted themselves out.
- 23% saw their runway shrink despite actions taken, 19% have not seen a change, 34% were able to add 1–3 months, 11% 4–6 months, 10% 7–12 months and 4% over 12 months.



Note: excludes profitable respondents and y-axis maximum is set to 5 years

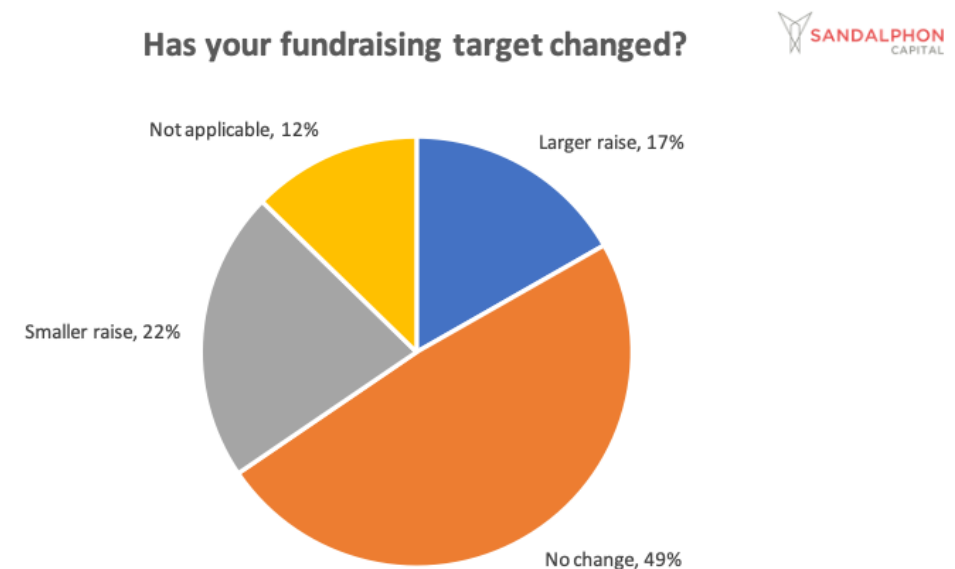
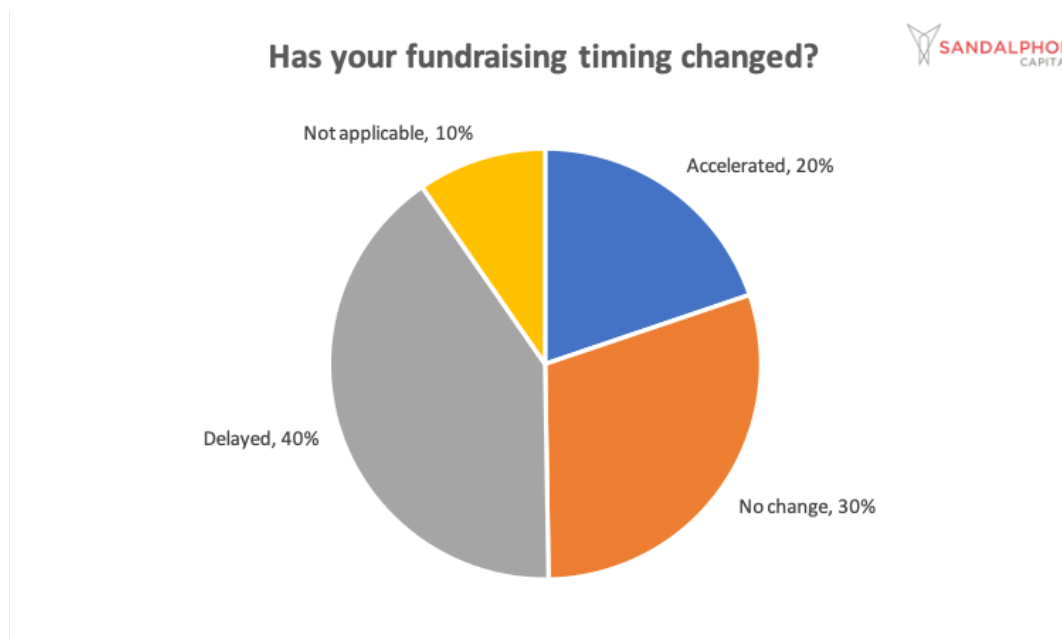
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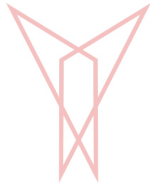


# Fundraising Impact | Timing + Targets

40% have delayed their fundraise, either out of necessity due to investor appetite, or because of runway extension.

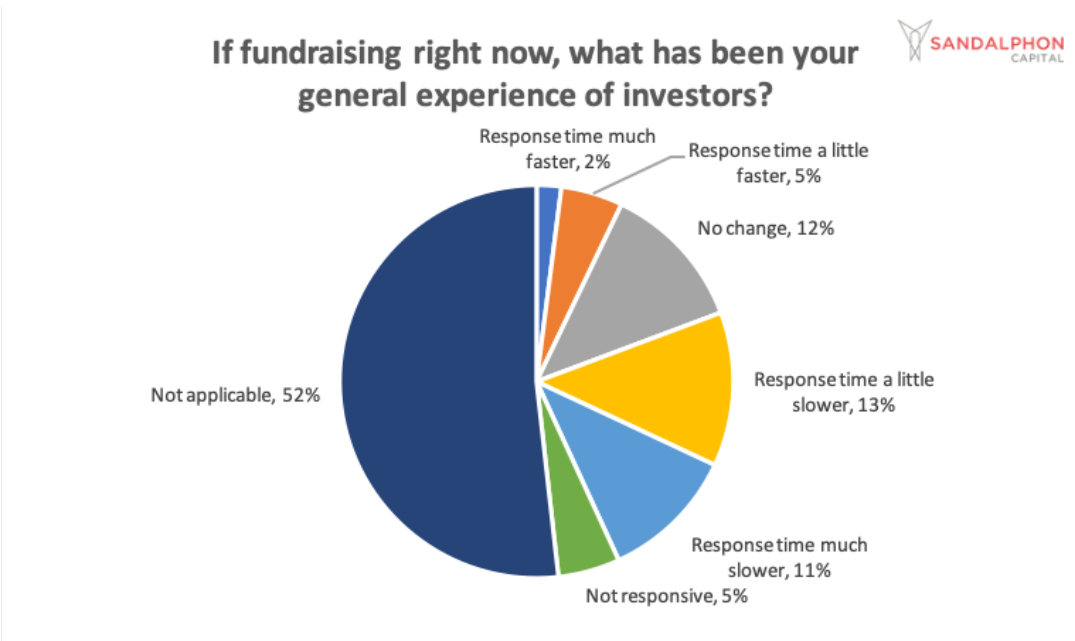
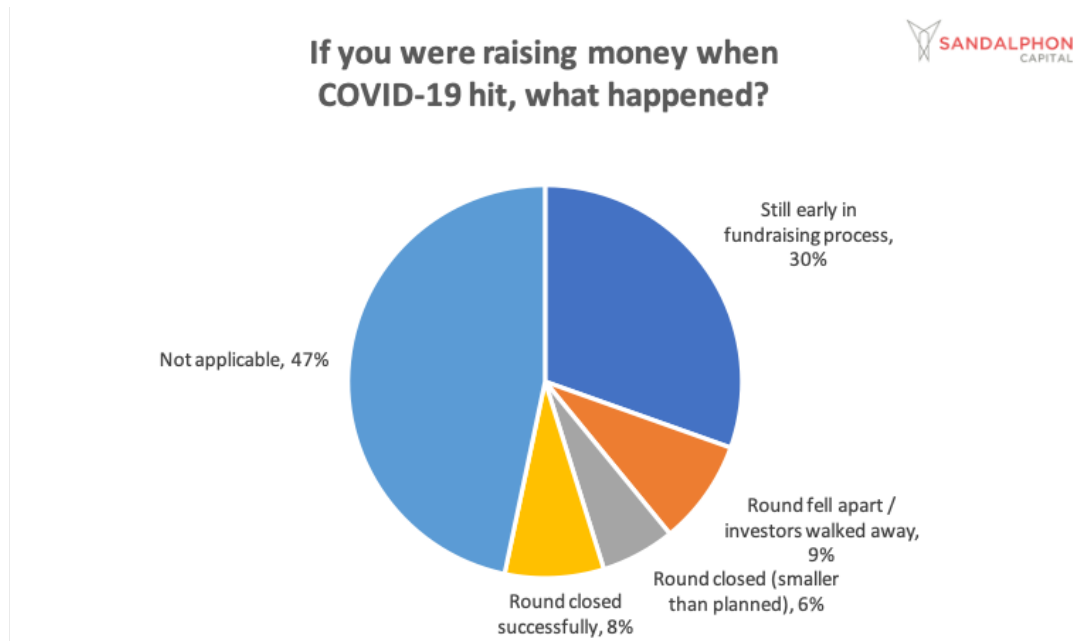
- 29% are fundraising right now, 10% are not going to be fundraising, and for everyone else the median is 6 months until they plan to start fundraising, giving the average startup 4 months to raise money given a median runway of 10 months.



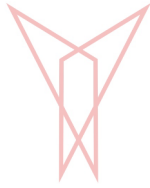


# Fundraising Impact | Experience

Fundraising in the last few months has been a mixed experience.



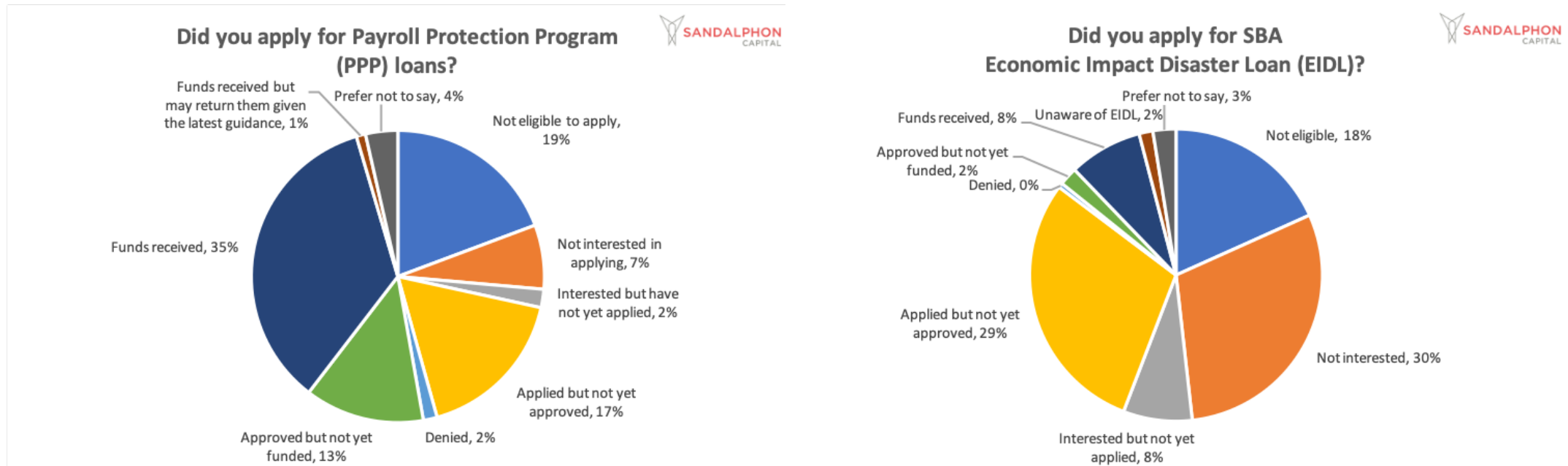
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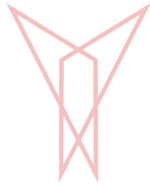
# PPP + EIDL Loans

Payroll Protection Program (PPP) and Economic Impact Disaster Loans (EIDL) are the primary additional sources of funding specific to small businesses for this crisis. Ineligibility is around the same for both at ~18–19%.

- The PPP loans are much more popular than EIDL loans, with only 7% eligible but not interested in PPP versus 30% for EIDL, presumably given the forgiveness of the PPP loans.
- Of those that have applied for a PPP loan only 53% have received funds and only 20% for EIDL.

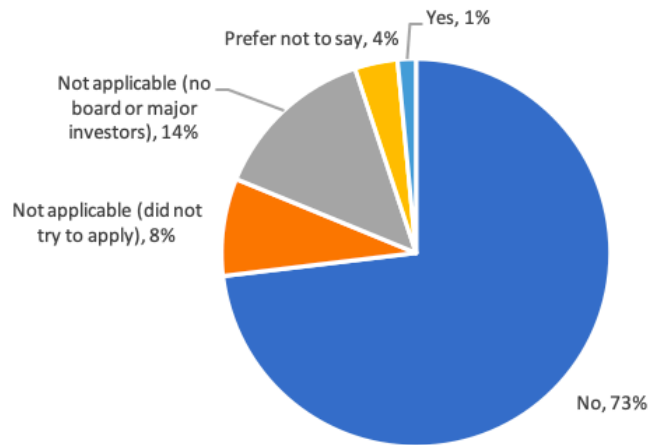


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# PPP + EIDL Application Blocking

Have your Board or Major Investors tried to block PPP or EIDL applications?



There were some reports of investors trying to block applications based on varying interpretations of the intent of these programs, however within our sample this was very rare.



# Takeaways

The impact of COVID-19 has varied greatly, but the sentiment is optimistic. If you have been hit hard by this, you are not alone. If you have seen tailwinds from this, hopefully you can really appreciate how fortunate you are. Investors are generally being helpful but will need to figure out how to take a long-term view without strong near-term signals. CEOs are generally doing what it takes, and the survey suggests there is room for further action in many cases where necessary. For those that have been laid off, or where startups do not survive this, there are still plenty of tech companies expanding across the region where your skills and experience can make a huge difference.

The long-term outlook for our region remains positive. It is worth noting that our sample compares very favorably with a [study done by Startup Genome](#) that found that 74% of startups globally have trimmed staff (versus 22% in our survey) and 65% have less than six months runway (versus 36% in our survey). We seem better positioned than many to weather the storm thanks to Midwestern capital efficiency and pragmatism.

- One note from a CEO really sums up the attitude of many respondents:  
"Tough times but I'm sure many startups are finding a lot of positive outcomes and using this as a forcing function to make positive changes. That certainly has been the case for us. We're doing the best marketing we've ever done right now, called 100% of our customers in April and learned a ton from those conversations in addition to incredible goodwill, and this crisis actually helped illuminate a really significant growth opportunity for us that may triple our TAM. I hope you're hearing similar things from other founders."

Please also check out our [full write-up with additional commentary on Medium](#)

Nearly all respondents expressed interest in participating in another survey in coming months as conditions evolve, so if you want to make sure you hear about future surveys and results please sign up for our email list [here](#) and follow [Sandalphon Capital](#) on Twitter.



# About Sandalphon

Jonathan Ellis is the Founder & Managing Director of Sandalphon Capital, a Pre-Seed to Series A stage VC firm established in 2016, based in Chicago and focused primarily on the Midwest. He was previously a Senior Vice President at Macquarie where he spent ten years making private equity and debt investments in middle market companies and special situations. He holds a BSc (Hons) International Management from the University of Manchester and a Masters in Finance from INSEAD.

Sandalphon's Midwestern portfolio companies include Avail, Balto, Backstitch, Chowly, Daupler, Jibit, Kin Insurance, LogicGate, MyCOI, Page Vault, Provi, Quevos, RealVision, Regroup Telehealth, The Minte, Structurely, Supernova, TripScout, Truss and Vertex. At the time of writing Sandalphon is between funds and is not actively investing in new opportunities.

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Twitter: [@jonrellis](https://twitter.com/ jonrellis)

