CIVITTA

Commissioned by

Google

The Baltic Startup Scene Up-Close: Today's Realities, Tomorrow's Possibilities

October 2022

Agenda

1. **Startups in the Baltics**
2. Ecosystem health check
3. Policies & regulations
4. Interviews & survey results
5. Recommendations
6. Methodology Note

CIVITTA CONDUCTED A STUDY ON STARTUP ECOSYSTEM IN THE BALTICS

DATA SOURCES USED

DEALROOM AND ORBIS DATA

7500+
data rows

STARTUP SURVEY

108
startups

EMPLOYEES' SURVEY

1798
respondents

INTERVIEWS

25+
interviewees

OUR GOAL

ASSESS THE BALTIC STARTUP ECOSYSTEM'S HEALTH, MEASURE ITS ECONOMIC IMPACT AND EXPLORE WAYS TO MAKE IT BIGGER

Agenda

1. **Startups in the Baltics**
   - **Startup scene overview**
   - Key success differentiators
   - Startups' impact on economies
2. Ecosystem health check
3. Policies & regulations
4. Interviews & survey results
5. Recommendations
6. Methodology Note

SECTION SUMMARY: THE NUMBER OF STARTUPS IS RAPIDLY INCREASING IN THE BALTICS, BUT THE ISSUE THEY FACE IS TO GROW FURTHER AND REACH MATURITY

General dynamics

- **The number of startups has been growing across all Baltic states** in recent years; Estonia has the largest number of startups (~1,300), followed by Lithuania (~1,100) and Latvia (~600); Estonia also has significantly more unicorns than Lithuania and Latvia – 10 unicorns vs. 3 for Baltic neighbours
- However, despite a seemingly high total number of startups, **only a few of them are large enough i**n terms of revenues and employee numbers (i.e. 10-20% of startups account for 80-90% of total number of jobs and total amount of revenue)

Industries

- As of 2021, **the most popular industries among Baltic startups are fintech, enterprise software, and marketing**, which have also been growing most historically in terms of new launches
- Baltics' focus on fintech, enterprise software, and marketing is **roughly in line with industries' growth trends globally**
- **Many industries in the Baltics show acceleration trend in the number of startups working in them,** incl. the largest ones currently (except for enterprise software in Lithuania)

Funding

- Total **VC funding in the Baltics has drastically increased** since 2017, with Estonia being a clear leader in terms of funding amounts; the average round sizes have been increasing over the years as well
- However, similar to jobs and revenues, **top-10 companies in each country account for the majority of attracted funding** (~80-85% depending on the market)
- **Most investments are revolving around Pre-Seed and Seed rounds**, with only a small number of rounds happening at more advanced stages
- Historically and until now, **a large share of all VC investments are done by foreign investors**; the larger the deal amount, the greater the involvement of foreign investors

Success funnels

- Based on funding rounds trajectory, **Estonian startups demonstrate better success** than their Lithuanian and Latvian counterparts
- However, **only a small share of startups** – from 4% to 14% depending on the country – **manage to progress from Seed round to further funding stages** – lower success rate than for EU and US peers
- Irrespective of funding stage, many startups manage to get more than one round, suggesting that **they get capped at the same funding stage (mainly Seed stage)**
- This potentially indicates that **Baltic startups face issues with growing further and reaching greater maturity** (esp. Lithuania and Latvia which fall behind not only EU and US averages, but Estonia as well)

FOR THE BALTIC STARTUP SCENE OVERVIEW, WE'LL START BY DEEP DIVING INTO GENERAL MARKET DYNAMICS

STARTUP SCENE IN THE BALTICS

1

General dynamics

- How has the overall number of startups evolved? How many startups matter in terms of their impact/value creation?

2

Industries' focus

- On what industries do startups focus? How does it compare to global growth trends in other ecosystems?

3

Funding

- How has the overall VC funding evolved over time? What are the largest deals and most funded companies?

4

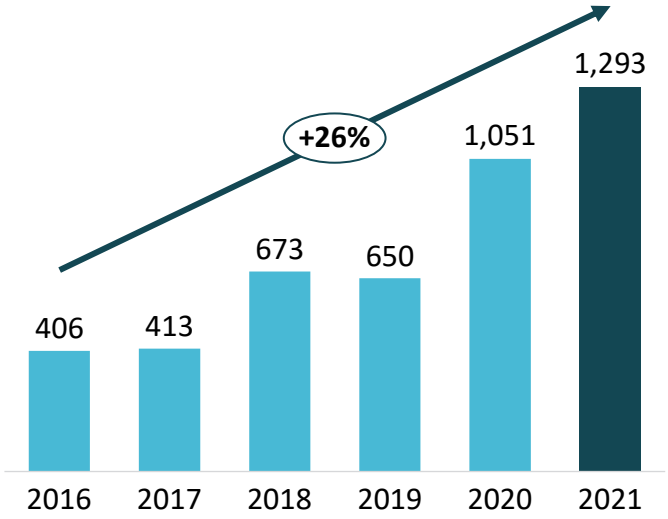
Success funnels

- How do startups compare in terms of their success rate across countries? How do we progress from round to round?

THE BALTIC REGION HAS SHOWN TREMENDOUS GROWTH IN THE NUMBER OF STARTUPS

TOTAL NUMBER OF STARTUPS IN THE REGION, 2016-21

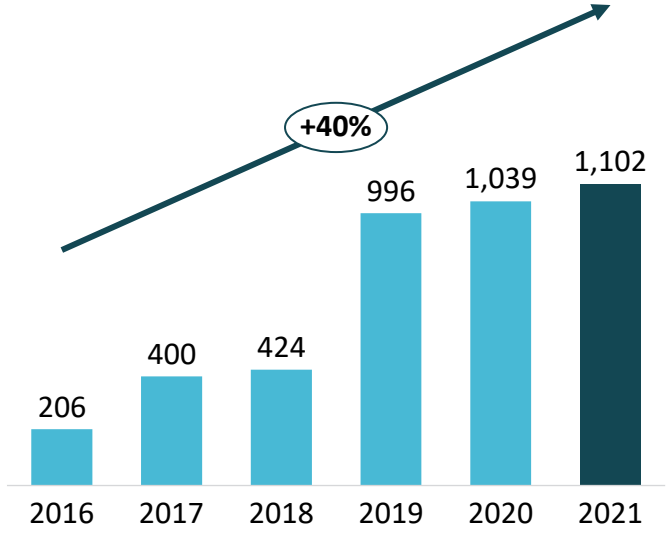
ESTONIA



10 unicorns

glia, veriff, ZEGO, ID.me, pipedrive, Bolt, wise, playtech, skype

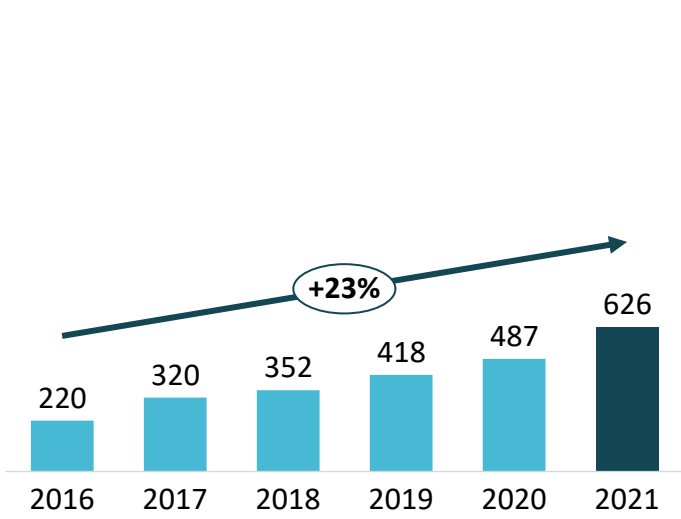
LITHUANIA



2 unicorns

NORD SECURITY, Vinted

LATVIA



1 unicorn

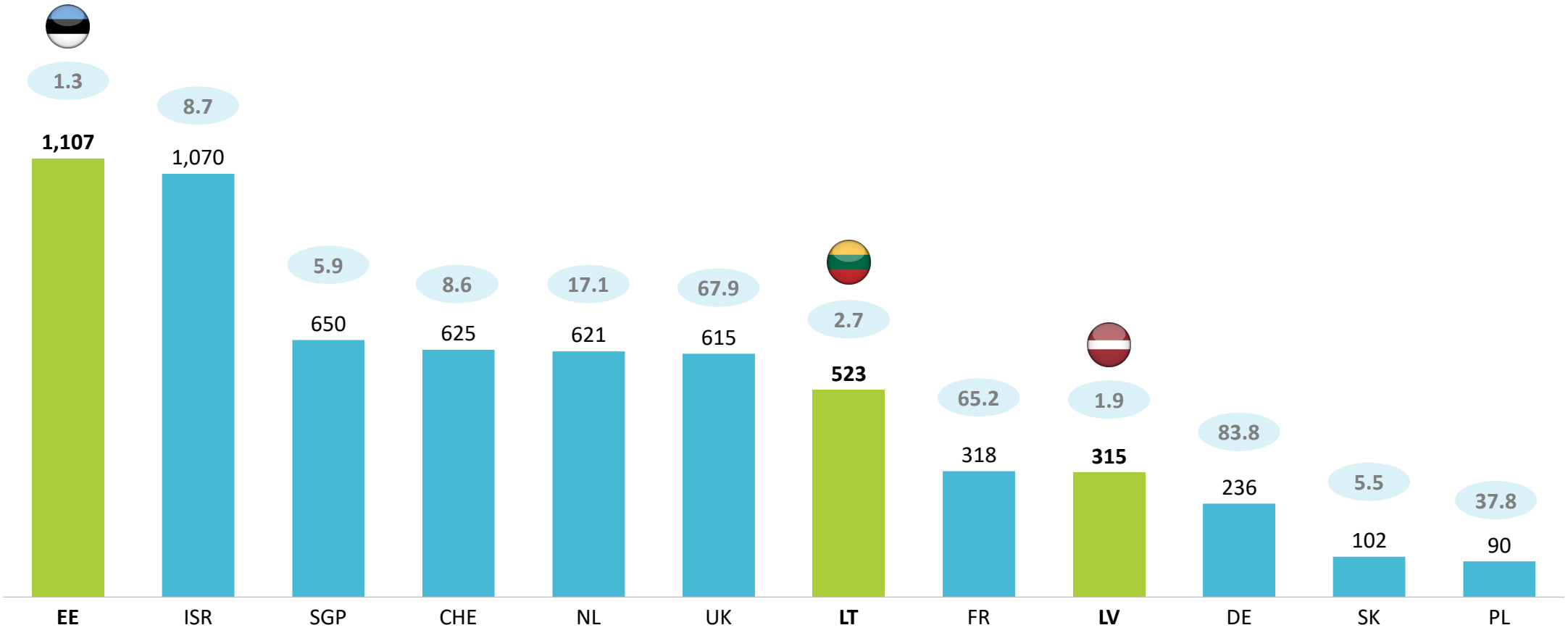
PRINTFUL

CIVITTA Source: Baltic Startup Scene reports (2017-2020), Change ventures, Startup Estonia, e-Estonia.com

ESTONIA RETAINS ITS LEADERSHIP AS THE MOST ENTREPRENEURIAL COUNTRY, MEASURED BY STARTUPS PER CAPITA

NUMBER OF STARTUPS PER 1 M INHABITANTS BY COUNTRY, 2021

XX Population, m inhabitants, 2021



Source: Dealroom.co

1

\ GENERAL DYNAMICS: SIMILARLY, ESTONIA HAS THE LARGEST NUMBER OF UNICORNS ACROSS THE BALTIC STATES

LIST OF UNICORNS IN THE REGION, AS OF AUGUST 2022

XX Number of unicorns XX Year when became unicorn

ESTONIA

10*

glia — 2022

veriff — 2022

ZEGO — 2021

2021

ID.me — 2021

pipedrive — 2020

Bolt — 2018

wise — 2015

playtech SOURCE OF SUCCESS — 2007

skype — 2005

LITHUANIA

2

NORD SECURITY — 2022

Vinted — 2019

LATVIA

1

PRINTFUL — 2021

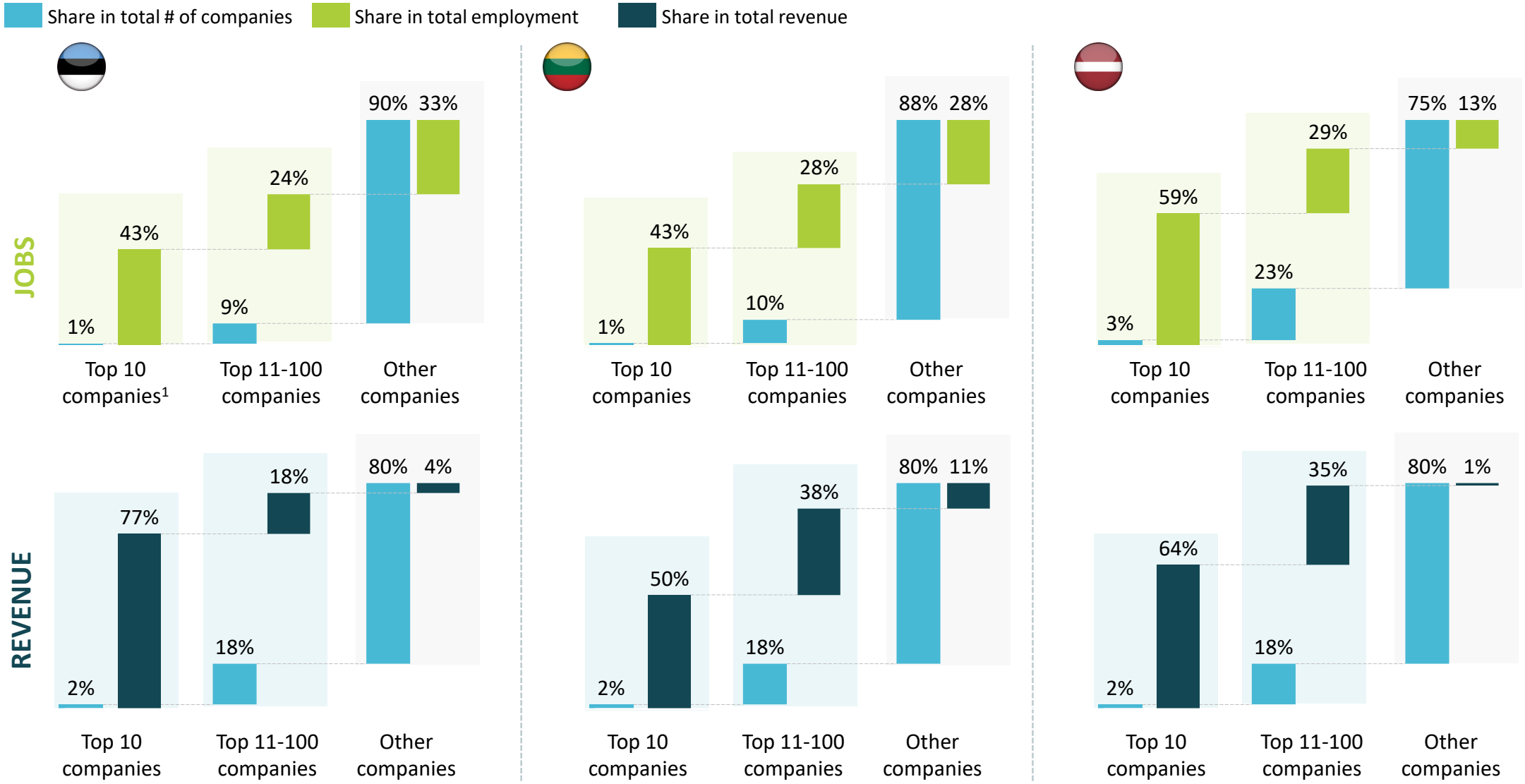
CIVITTA

Source: Baltic Startup Scene reports (2017-2020), Change ventures, Startup Estonia, Investinestonia.com, Funding, Failures & Exits of Estonian Tech Startups 2006-2022 #EstonianFounders & Land of Unicorns spreadsheet
*as of January 2022

Google

1

\ GENERAL DYNAMICS: MAJORITY OF ECONOMIC VALUE IS CREATED BY A HANDFUL OF LARGE STARTUPS



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide

1. Hereinafter, Top companies are those startups that have the largest number of employees / revenue within the country

AFTER GENERAL DYNAMICS, WE SHIFT OUR ATTENTION TO THE BIGGEST FOCUS AREAS OF THE INDUSTRY

STARTUP SCENE IN THE BALTICS

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General dynamics

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- How has the overall VC funding evolved over time? What are the largest deals and most funded companies?

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Success funnels

- How do startups compare in terms of their success rate across countries? How do we progress from round to round?

CIVITTA Source: CIVITTA methodology

2 \ INDUSTRIES: AS OF 2021, THE MOST POPULAR INDUSTRIES AMONG BALTIC STARTUPS WERE FINTECH, ENTERPRISE SOFTWARE, AND MARKETING

ESTONIA

Fintech	17%
Enterprise software	10%
Marketing	8%
Media	5%
Transportation	5%
Health	5%
Education	5%
Gaming	4%
Security	4%
Energy	4%
Travel	3%
Real estate	3%
Recruitment	3%
Food	3%
Wellness beauty	3%
Home living	2%
Robotics	2%
Legal	2%
Sports	2%
Hosting	2%
Other	10%

LITHUANIA

Fintech	13%
Enterprise software	13%
Transportation	8%
Marketing	7%
Health	6%
Media	5%
Gaming	4%
Education	4%
Energy	4%
Food	4%
Travel	3%
Home living	3%
Real estate	3%
Security	3%
Hosting	2%
Recruitment	2%
Legal	2%
Robotics	2%
Sports	2%
Wellness beauty	1%
Other	9%

LATVIA

Fintech	15%
Enterprise software	11%
Media	7%
Transportation	6%
Health	6%
Marketing	6%
Food	4%
Energy	4%
Home living	4%
Education	3%
Sports	3%
Real estate	3%
Gaming	3%
Robotics	3%
Security	2%
Hosting	2%
Wellness beauty	2%
Recruitment	2%
Travel	1%
Legal	1%
Other	9%

2 \ INDUSTRIES: FINTECH AND ENTERPRISE SOFTWARE - THE FASTEST GROWING INDUSTRIES IN THE NUMBER OF NEW STARTUP LAUNCHES

NEW STARTUP LAUNCHES BY INDUSTRY

new startups launches based on the industry, %

total % of new startups per year per industry

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fintech	6.0%	9.2%	9.2%	9.2%	11.4%	14.3%	14.2%	24.7%	22.7%	18.6%	15.1%	20.8%
Enterprise software	12.9%	12.6%	11.0%	14.0%	12.6%	10.8%	12,0%	9.8%	11.2%	7.5%	9.2%	17.0%
Marketing	5.2%	9.2%	7.0%	8.5%	4,0%	7.8%	7.3%	9,0%	6.5%	8.4%	11,0%	3.8%
Transportation	5.2%	8.0%	5.3%	6.3%	4.3%	5.5%	5.9%	5.7%	7.4%	6.4%	4.1%	3.8%
Health	5.2%	4.0%	5.3%	5.9%	6.5%	4,0%	5,0%	4.3%	6.9%	4.1%	10.1%	11.3%
Media	6.9%	7.5%	6.1%	7.4%	5.8%	7,0%	4.7%	4.1%	4.8%	3.2%	4.6%	3.8%
Education	3.4%	2.9%	5.3%	5.5%	5.2%	3.8%	4.7%	2.9%	4.1%	2.9%	6.9%	5.7%
Energy	6.0%	5.7%	1.8%	2.6%	4.3%	3.3%	3.1%	4.1%	2.4%	4.6%	2.3%	3.8%
Gaming	9.5%	5.2%	7.5%	5.5%	3.7%	4,0%	2.8%	2.5%	3.3%	2,0%	1.8%	1.9%
Food	0.0%	3.4%	1.8%	2.9%	4.9%	2.5%	2.5%	3.5%	2.9%	4.9%	6,0%	3.8%
Security	2.6%	2.3%	2.2%	3.3%	2.8%	3.5%	3.4%	2.7%	4.3%	5.2%	2.3%	5.7%
Real estate	3.4%	1.1%	1.8%	3.3%	2.2%	2.8%	5.3%	2.9%	2.6%	2.6%	2.8%	0.0%
Travel	2.6%	2.9%	4.4%	2.6%	4.6%	2.8%	4.7%	2.7%	2.2%	1.7%	0.9%	1.9%
Other	*31.0%*	*25.9%*	*31.6%*	*23.2%*	*27.7%*	*28.3%*	*24.3%*	*20.9%*	*18.7%*	*27.8%*	*22.9%*	*17.0%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*

CIVITTA Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide

2 \ INDUSTRIES: THE FASTEST-GROWING INDUSTRIES IN THE BALTICS ARE ROUGHLY IN LINE WITH GLOBAL GROWTH TRENDS

NEW STARTUP LAUNCHES BY INDUSTRY AS % OF ALL LAUNCHES IN 2016-21

total # of new startups per industry

	EE	LT	LV	UK	DE	FR	NL	ISR	SGP	CHE	PL	SK
Fintech	22%	18%	18%	12%	12%	6%	5%	11%	19%	17%	9%	14%
Marketing	8%	8%	8%	7%	6%	8%	9%	11%	10%	6%	9%	12%
Enterprise software	9%	11%	11%	7%	11%	7%	6%	9%	7%	7%	11%	11%
Health	5%	7%	6%	7%	8%	6%	6%	12%	5%	12%	7%	8%
Media	4%	4%	4%	5%	5%	5%	5%	7%	6%	3%	4%	5%
Transportation	4%	8%	6%	4%	7%	8%	6%	4%	4%	4%	7%	8%
Food	2%	5%	5%	6%	5%	7%	7%	5%	6%	5%	4%	2%
Fashion	2%	1%	1%	4%	3%	4%	14%	2%	3%	3%	3%	2%
Energy	3%	4%	3%	4%	5%	3%	4%	2%	3%	5%	4%	5%
Real estate	2%	4%	4%	4%	4%	5%	3%	3%	4%	4%	3%	2%
Home living	1%	3%	3%	3%	3%	5%	6%	1%	2%	3%	2%	2%
Education	4%	4%	3%	4%	3%	3%	3%	4%	4%	3%	3%	2%
Jobs recruitment	4%	3%	3%	4%	3%	7%	2%	2%	4%	3%	3%	2%
Sports	2%	2%	4%	3%	3%	5%	3%	2%	1%	3%	2%	3%
Travel	3%	2%	1%	3%	2%	3%	2%	3%	3%	3%	3%	3%
Security	5%	2%	3%	3%	2%	2%	2%	8%	3%	4%	2%	3%
Wellness beauty	2%	2%	2%	3%	2%	4%	4%	1%	2%	2%	4%	2%
Gaming	3%	3%	2%	3%	2%	2%	2%	2%	2%	1%	5%	3%
Event tech	2%	1%	1%	2%	2%	2%	1%	1%	1%	1%	1%	1%
Legal	3%	3%	2%	2%	2%	2%	1%	1%	2%	3%	1%	2%
Robotics	2%	2%	3%	1%	3%	2%	2%	3%	2%	3%	3%	2%
Hosting	2%	1%	2%	2%	2%	1%	2%	1%	1%	1%	2%	2%
Semiconductors	0%	0%	2%	1%	3%	1%	1%	2%	1%	2%	1%	2%
Kids	2%	1%	1%	2%	1%	1%	3%	2%	1%	1%	2%	1%
Music	1%	1%	1%	2%	1%	1%	1%	1%	1%	1%	1%	0%
Telecom	1%	1%	2%	1%	1%	1%	1%	1%	1%	1%	1%	0%
Dating	1%	1%	0%	1%	0%	0%	0%	0%	1%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Focus of the analysis

total # of new startups per country

CIVITTA Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide

2 \ INDUSTRIES: MANY INDUSTRIES IN THE BALTICS SHOW ACCELERATION TREND, INCL. THE LARGEST ONES (EXCEPT FOR ENTERPRISE SOFTWARE IN LITHUANIA)

NUMBER OF NEW LAUNCHES IN 2010-15 VS NEW LAUNCHES IN 2016-21, %

XX – share of the category in total # of new startups in 2010-2021 in country

total # of new startups per industry

	EE		LT		LV		UK		DE		FR		NL		ISR		SGP		CHE		PL		SK	
Fintech	165%	18%	107%	14%	104%	15%	36%	11%	60%	10%	35%	5%	23%	5%	-25%	9%	49%	16%	82%	15%	33%	9%	15%	12%
Marketing	53%	8%	20%	7%	140%	6%	-19%	8%	4%	6%	-2%	8%	-5%	10%	-49%	12%	-34%	13%	14%	6%	8%	10%	31%	8%
Enterprise software	35%	10%	-20%	13%	31%	11%	-1%	8%	32%	10%	-3%	7%	11%	7%	-41%	10%	-14%	7%	33%	7%	-5%	12%	-35%	11%
Health	91%	4%	9%	7%	67%	6%	14%	7%	28%	7%	7%	6%	29%	6%	-36%	12%	-9%	5%	9%	13%	10%	7%	45%	6%
Media	-5%	5%	-23%	5%	-44%	7%	-23%	6%	-22%	6%	-19%	6%	0%	5%	-63%	10%	-19%	7%	-22%	4%	-17%	5%	-48%	8%
Transportation	27%	4%	30%	7%	67%	6%	28%	3%	14%	7%	13%	9%	36%	6%	-6%	4%	6%	4%	-8%	5%	101%	6%	-20%	8%
Food	16%	3%	65%	4%	220%	4%	48%	6%	48%	5%	28%	7%	43%	7%	-8%	4%	17%	5%	47%	4%	44%	4%	-64%	3%
Fashion	45%	2%	-33%	2%	-33%	1%	49%	4%	1%	3%	39%	3%	60%	12%	-32%	1%	-32%	3%	10%	2%	35%	3%	100%	1%
Energy	8%	3%	72%	4%	-38%	4%	14%	4%	0%	5%	-22%	3%	18%	4%	-63%	3%	6%	3%	-1%	5%	37%	4%	125%	3%
Real estate	16%	3%	79%	3%	225%	3%	15%	4%	27%	4%	23%	5%	9%	3%	52%	2%	20%	3%	46%	3%	51%	3%	-57%	4%
Home living	-33%	2%	-18%	3%	-17%	4%	6%	3%	-21%	3%	3%	5%	39%	5%	-41%	1%	-39%	2%	17%	2%	2%	3%	-43%	2%
Education	21%	5%	8%	4%	0%	4%	1%	4%	62%	3%	29%	3%	5%	3%	-51%	4%	3%	4%	71%	3%	15%	3%	-43%	2%
Jobs recruitment	146%	3%	29%	2%	167%	2%	25%	3%	23%	3%	70%	5%	44%	2%	-8%	1%	5%	4%	53%	3%	81%	3%	0%	2%
Sports	8%	2%	-14%	2%	38%	4%	28%	3%	21%	3%	85%	5%	28%	3%	9%	1%	-22%	1%	22%	3%	72%	2%	-64%	4%
Travel	76%	3%	-52%	3%	33%	1%	1%	3%	-24%	3%	-9%	3%	-3%	2%	-23%	2%	-8%	4%	33%	2%	21%	3%	250%	2%
Security	105%	4%	-11%	3%	167%	2%	41%	3%	35%	2%	19%	2%	6%	2%	-34%	7%	16%	3%	23%	4%	60%	2%	-50%	3%
Wellness beauty	-38%	3%	50%	1%	100%	2%	112%	3%	38%	2%	56%	3%	111%	3%	0%	1%	-31%	2%	53%	1%	108%	3%	150%	2%
Gaming	-34%	4%	-49%	4%	-13%	3%	16%	3%	7%	2%	-100%	1%	4%	2%	-52%	2%	16%	2%	33%	1%	10%	5%	50%	2%
Event tech	64%	2%	-29%	2%	0%	1%	-5%	2%	-23%	3%	-9%	2%	-6%	2%	-45%	1%	-56%	2%	0%	2%	-44%	1%	-88%	2%
Legal	178%	2%	91%	2%	500%	1%	1%	3%	14%	2%	80%	2%	22%	1%	-10%	1%	42%	2%	97%	2%	156%	1%	-33%	1%
Robotics	33%	2%	-13%	2%	25%	3%	52%	1%	-8%	3%	5%	2%	16%	2%	28%	2%	159%	1%	52%	3%	46%	3%	25%	2%
Hosting	7%	2%	-65%	2%	0%	2%	-25%	2%	-27%	2%	-24%	2%	-32%	2%	-53%	1%	-36%	1%	-29%	1%	18%	2%	-44%	3%
Semiconductors	-75%	1%	-79%	1%	0%	2%	-24%	2%	-28%	3%	-27%	1%	-37%	1%	-3%	1%	-48%	1%	-7%	2%	-18%	2%	25%	2%
Kids	100%	2%	-36%	1%	300%	1%	1%	2%	-16%	1%	-15%	1%	43%	3%	-34%	1%	-17%	1%	0%	1%	100%	1%	-75%	1%
Music	-11%	1%	-43%	1%	-50%	1%	-16%	2%	-16%	1%	-26%	1%	15%	1%	-71%	1%	-32%	1%	-36%	1%	0%	1%	-33%	1%
Telecom	-29%	2%	-27%	1%	-50%	3%	-31%	2%	-42%	1%	-50%	1%	-29%	1%	-74%	1%	-44%	2%	-47%	1%	-41%	1%	-100%	2%
Dating	40%	1%	-17%	1%	-100%	0%	-38%	1%	-32%	0%	-52%	1%	19%	0%	-58%	1%	-19%	1%	-68%	1%	0%	1%	100%	0%
Total		100%		100%		100%		100%		100%		100%		100%		100%		100%		100%		100%		100%

Focus of the analysis

total # of new startups per country

CIVITTA Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide

ONCE WE DEFINED DYNAMICS AND INDUSTRIES' FOCUS, WE INVESTIGATED FUNDING FOR STARTUPS WORK IN THE BALTICS

STARTUP SCENE IN THE BALTICS

1

General dynamics

- How has the overall number of startups evolved? How many startups matter in terms of their impact/value creation?

2

Industries' focus

- On what industries do startups focus? How does it compare to global growth trends in other ecosystems?

3

Funding

- How has the overall VC funding evolved over time? What are the largest deals and most funded companies?

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Success funnels

- How do startups compare in terms of their success rate across countries? How do we progress from round to round?

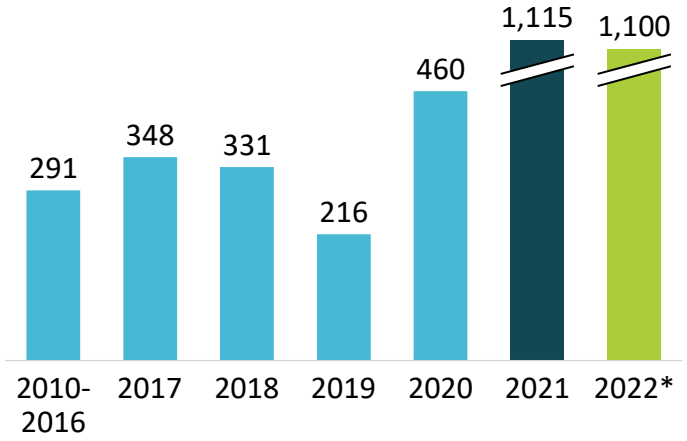
CIVITTA Source: CIVITTA methodology

FUNDING: TOTAL BALTIC VC FUNDING HAS DRASTICALLY INCREASED SINCE 2017, WITH ESTONIA AS THE CLEAR LEADER

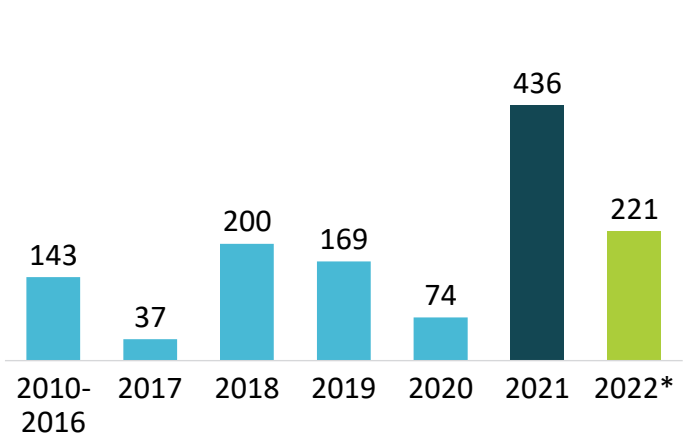
TOTAL VC FUNDING RAISED IN THE BALTICS BY COUNTRY, 2010-22, M EUR

XX number of deals

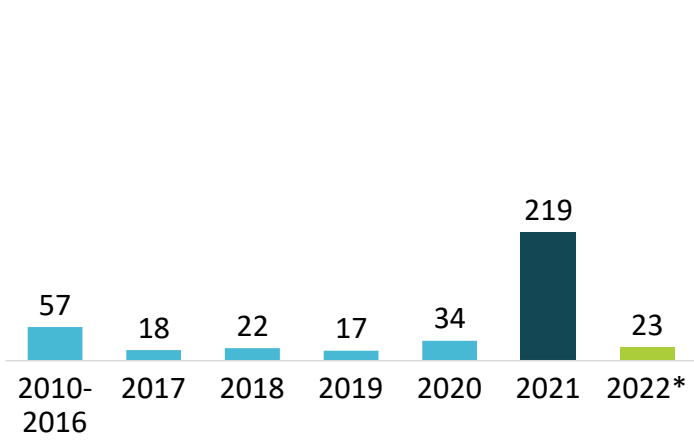
ESTONIA



LITHUANIA



LATVIA



LARGEST DEALS

wise wise Bolt Bolt Bolt Bolt Bolt

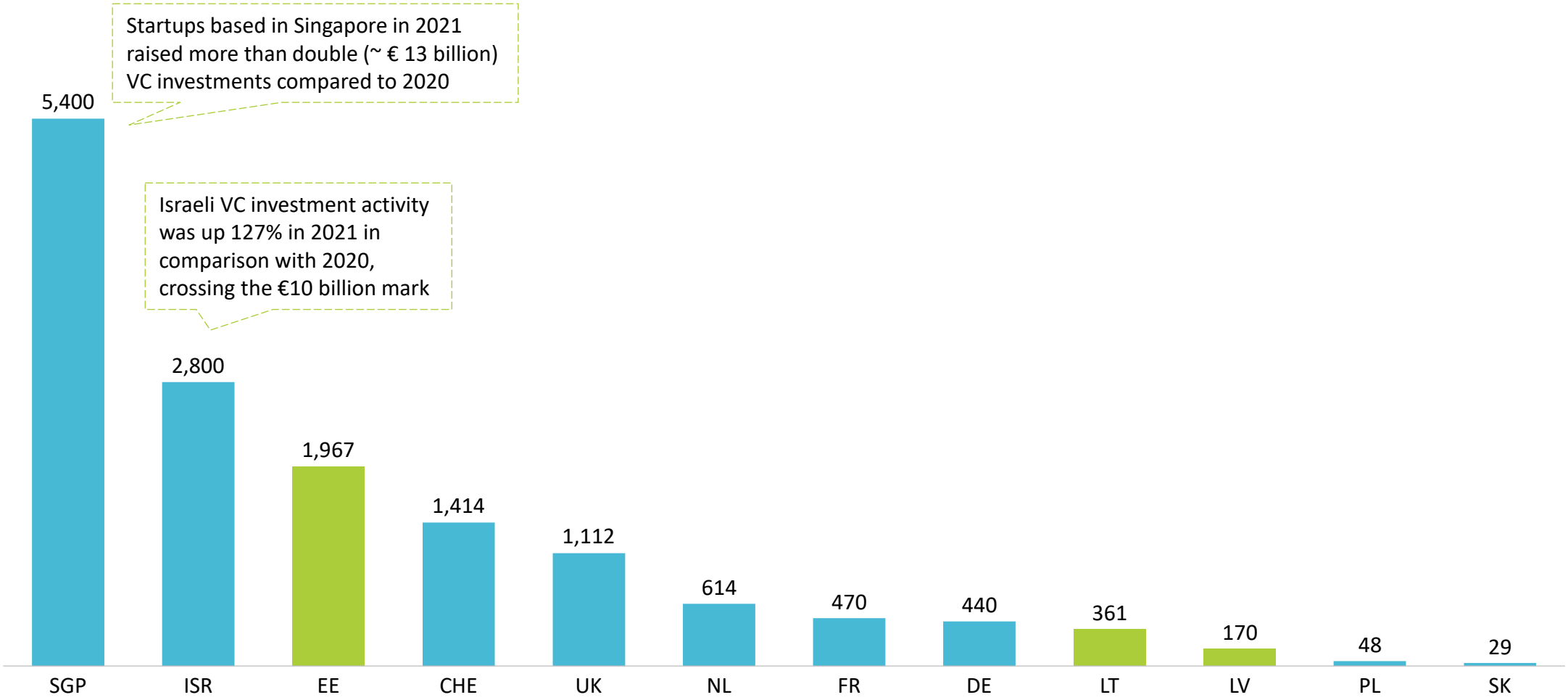
Vinted CUJO AI citybee Vinted argyle Vinted NORD SECURITY

TWINO ATLAS mintos Sonarworks mintos PRINTFUL

Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
*as of August 2022

3 \ FUNDING: ESTONIA HAS RAISED THE MOST VC FUNDING PER CAPITA IN EUROPE

VC FUNDING PER CAPITA BY COUNTRY, EUR , 2015-2021



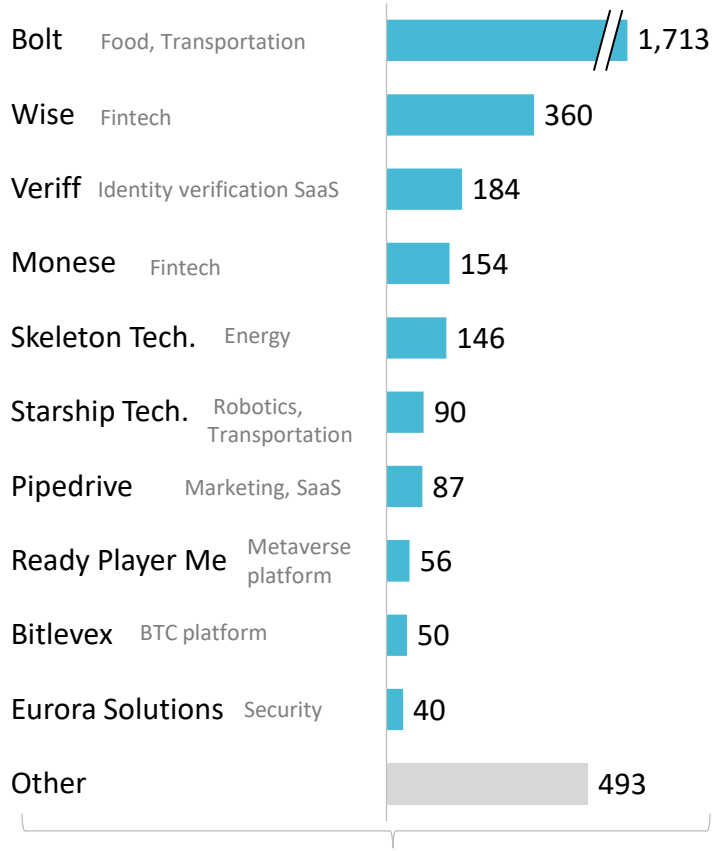
Source: Dealroom report "Coming of age: Central and Eastern European startups", Statista, Pitchbook, news articles of startup ecosystems in Israel and Singapore

3

\ FUNDING: IN EACH COUNTRY, THE MAJORITY OF FUNDS GO TO A FEW SELECTED WINNERS

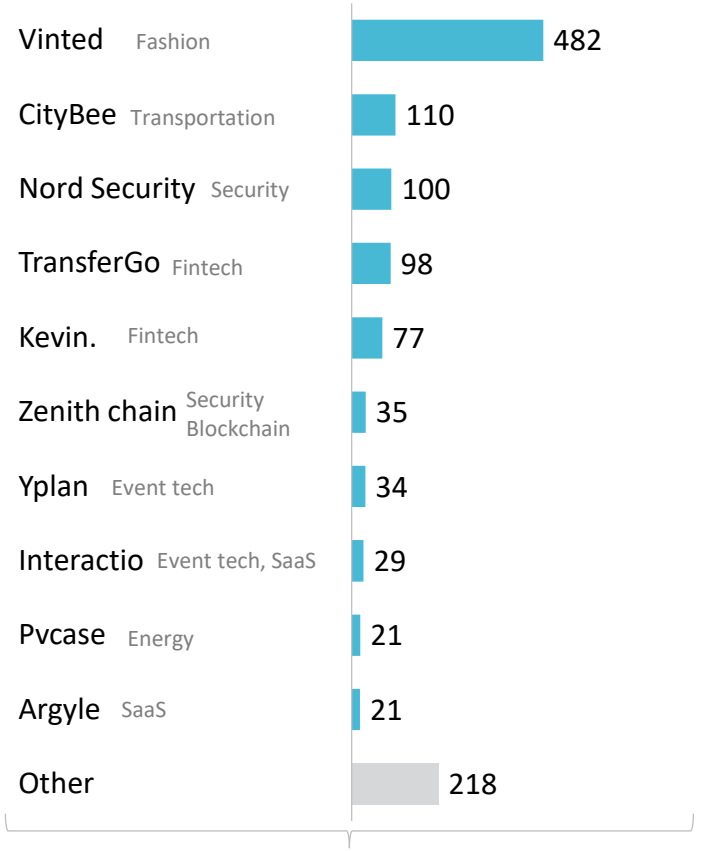
VC FUNDING RAISED BY TOP 10 COMPANIES IN BALTICS BY COUNTRY, AS OF AUGUST 2022, M EUR

ESTONIA



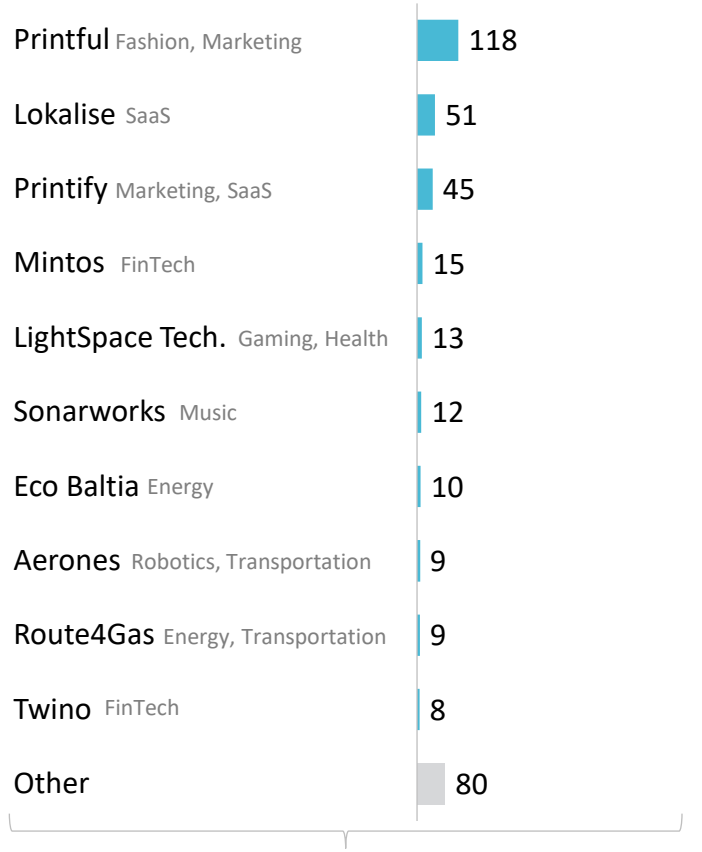
85% of total funding attracted by TOP 10 companies

LITHUANIA



79% of total funding attracted by TOP 10 companies

LATVIA



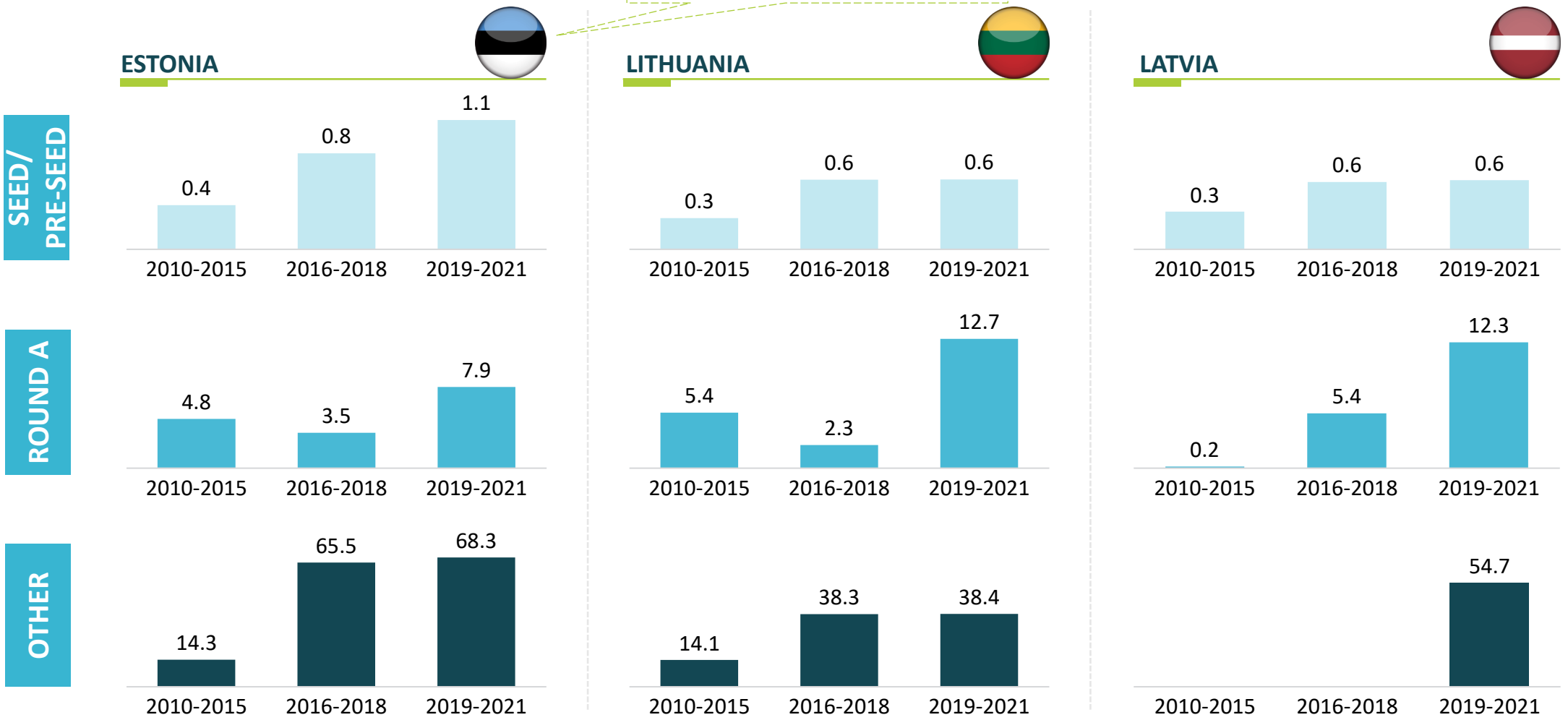
79% of total funding attracted by TOP 10 companies

CIVITTA Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide

3 \ FUNDING: AVERAGE ROUND SIZES HAVE BEEN INCREASING OVER THE YEARS

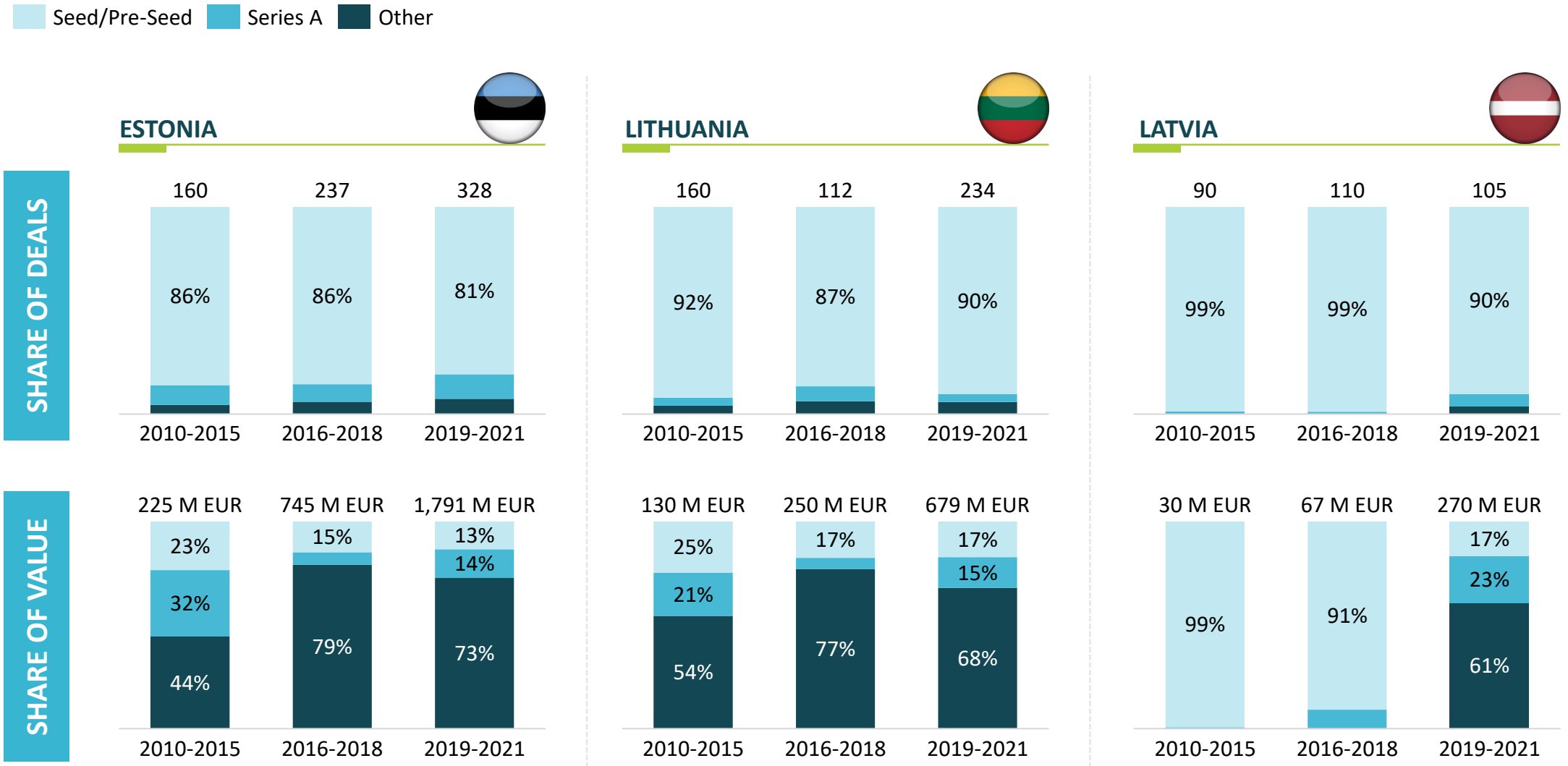
AVERAGE ROUND SIZE THE BY REGION, M EUR, 2010-21

Estonia has higher average pre-seed and seed round sizes, and more funding raised in other, bigger rounds



\ FUNDING: HOWEVER, MOST FUNDING ROUNDS ARE ASSOCIATED WITH SEED/PRE-SEED STAGE

SHARE OF DEALS COUNT AND DEALS VALUE, M EUR, 2010-21



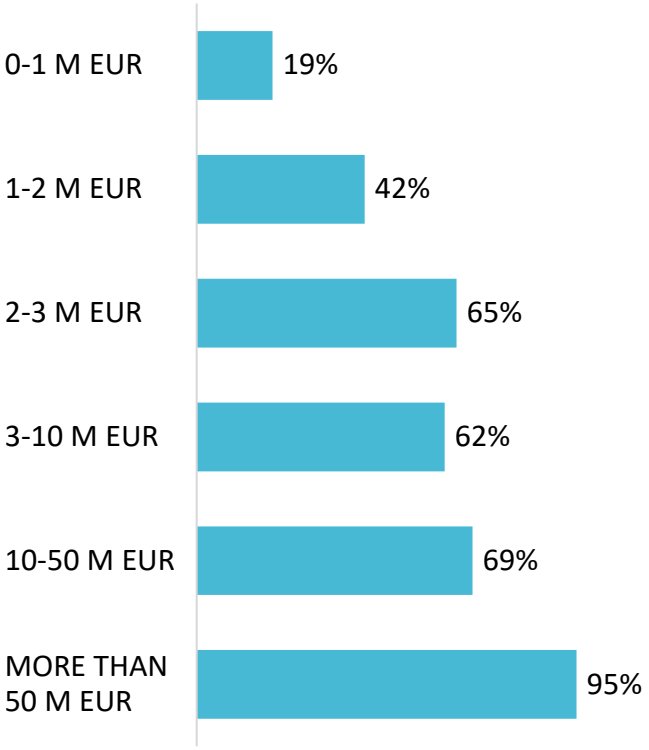
Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide

3

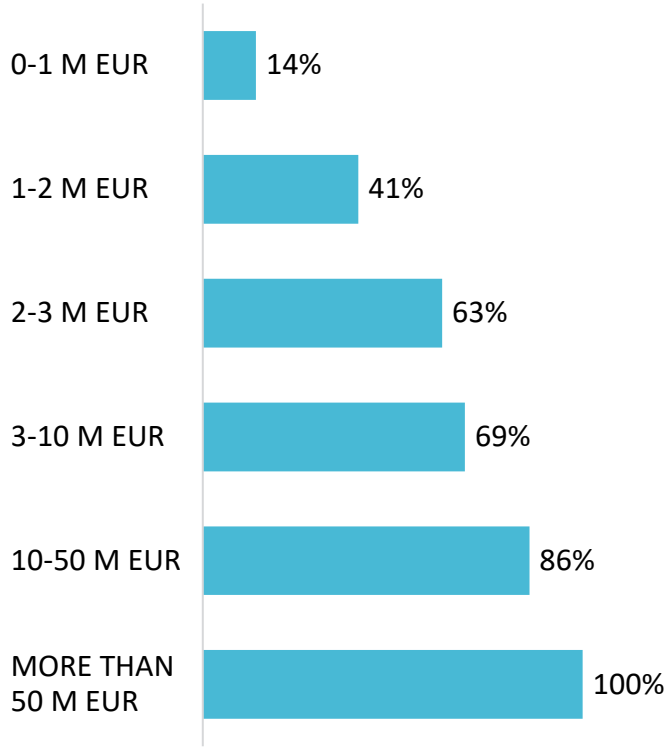
FUNDING: FOREIGN CAPITAL IS CRUCIAL IF STARTUPS WANT TO RAISE HIGHER VALUE ROUNDS

SHARE OF FOREIGN VC FUNDING DEPENDING ON THE DEAL SIZE, AS OF 2021

ESTONIA



LITHUANIA



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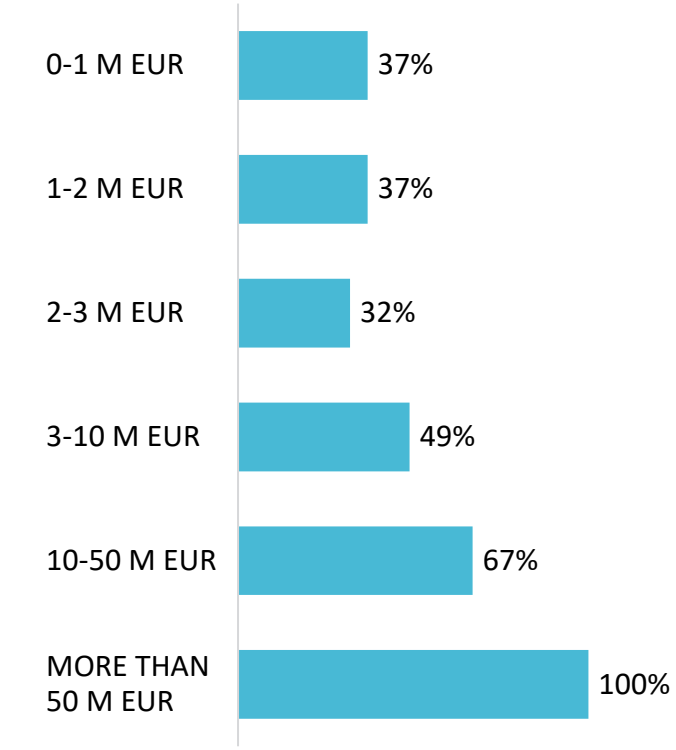
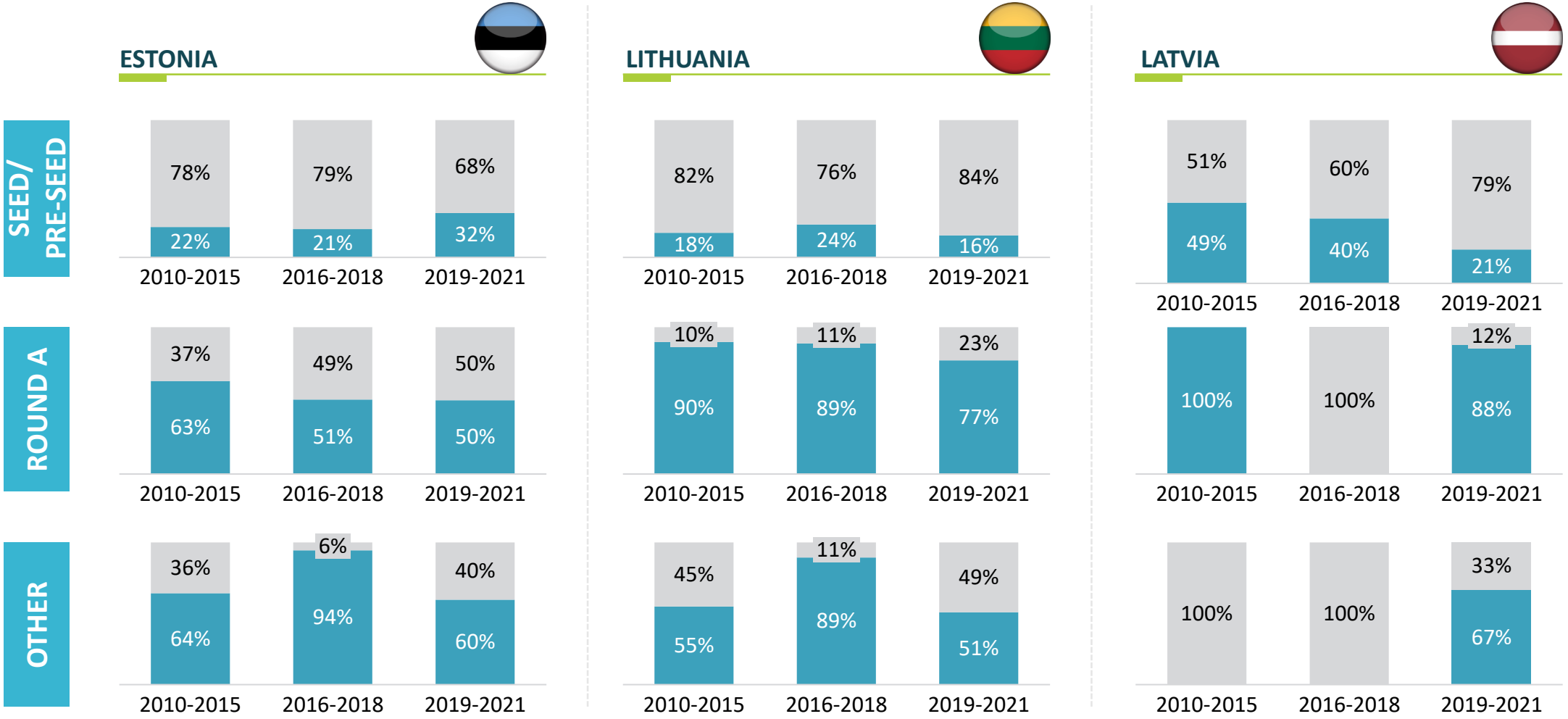


CIVITTA Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide

FUNDING: LOCAL AND MIX OF LOCAL AND FOREIGN INVESTORS ARE MORE PRESENT IN SEED ROUNDS WHILE FOREIGN INVESTORS ARE MORE ACTIVE IN LATER STAGES

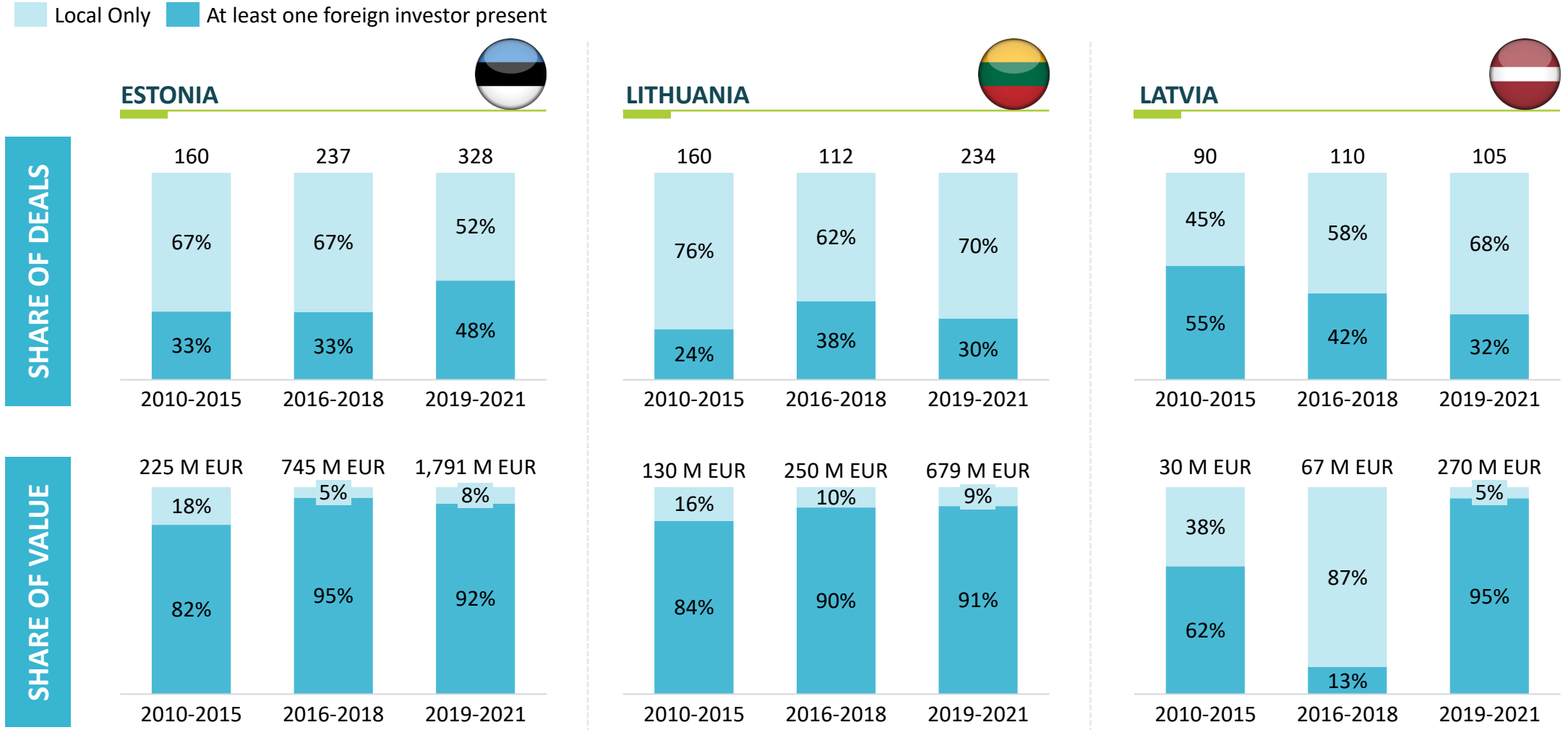
SHARE OF FOREIGN INVESTORS PRESENT IN FUNDING ROUNDS, AS OF 2021



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide

3 \ FUNDING: DEALS WITH AT LEAST ONE FOREIGN INVESTOR CONTRIBUTE TO THE MAJORITY OF DEALS' VALUE

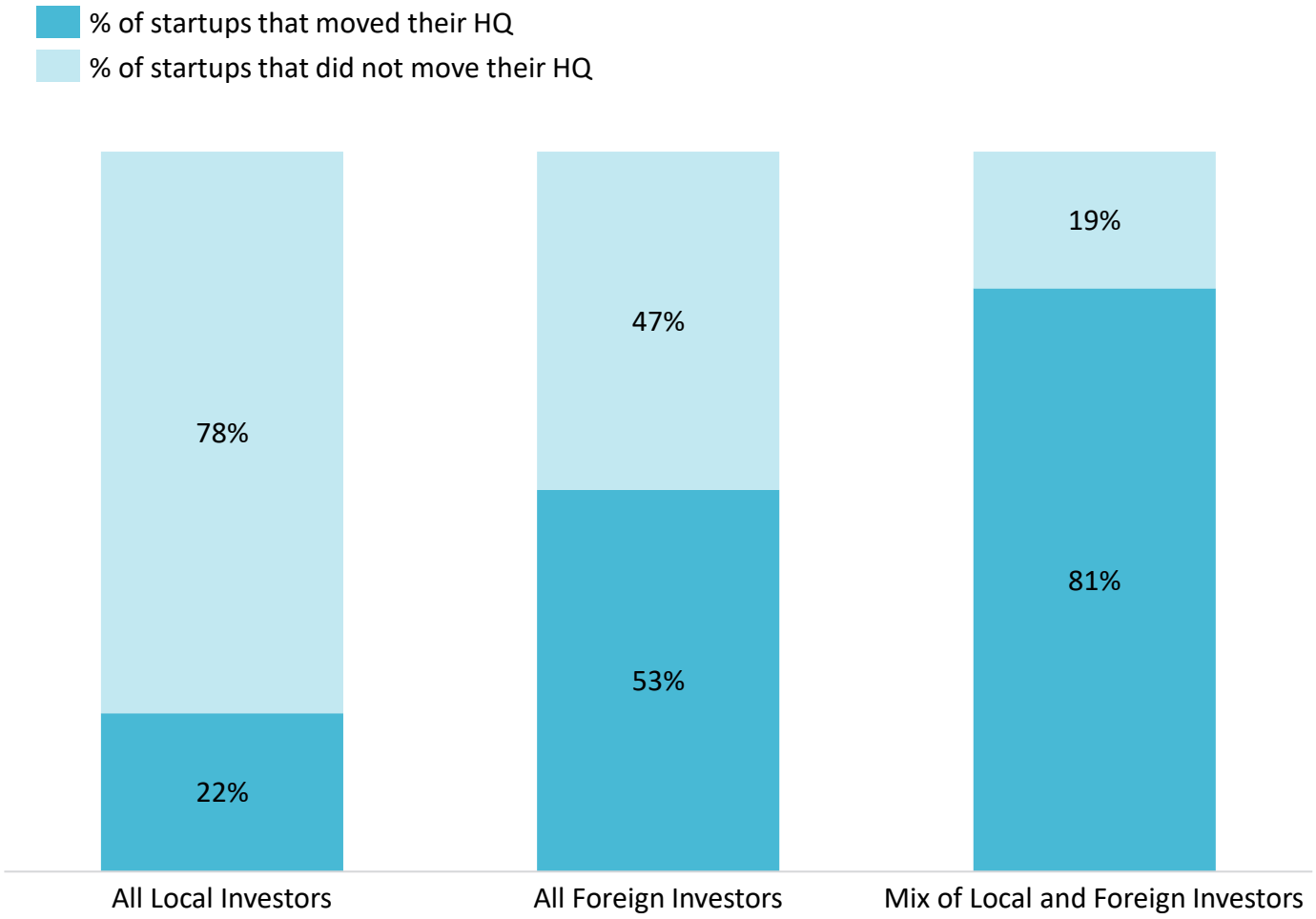
SHARE OF TOTAL BALTICS DEALS' COUNT AND DEALS' VALUE, M EUR, 2010-21



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide

3 \ FUNDING: STARTUPS WITH HQ LOCATED ABROAD HAVE A MUCH HIGHER SHARE OF FOREIGN INVESTORS

STARTUPS THAT MOVED THEIR HQ FROM BALTICS BY INVESTOR TYPE PRESENT IN THE DEAL



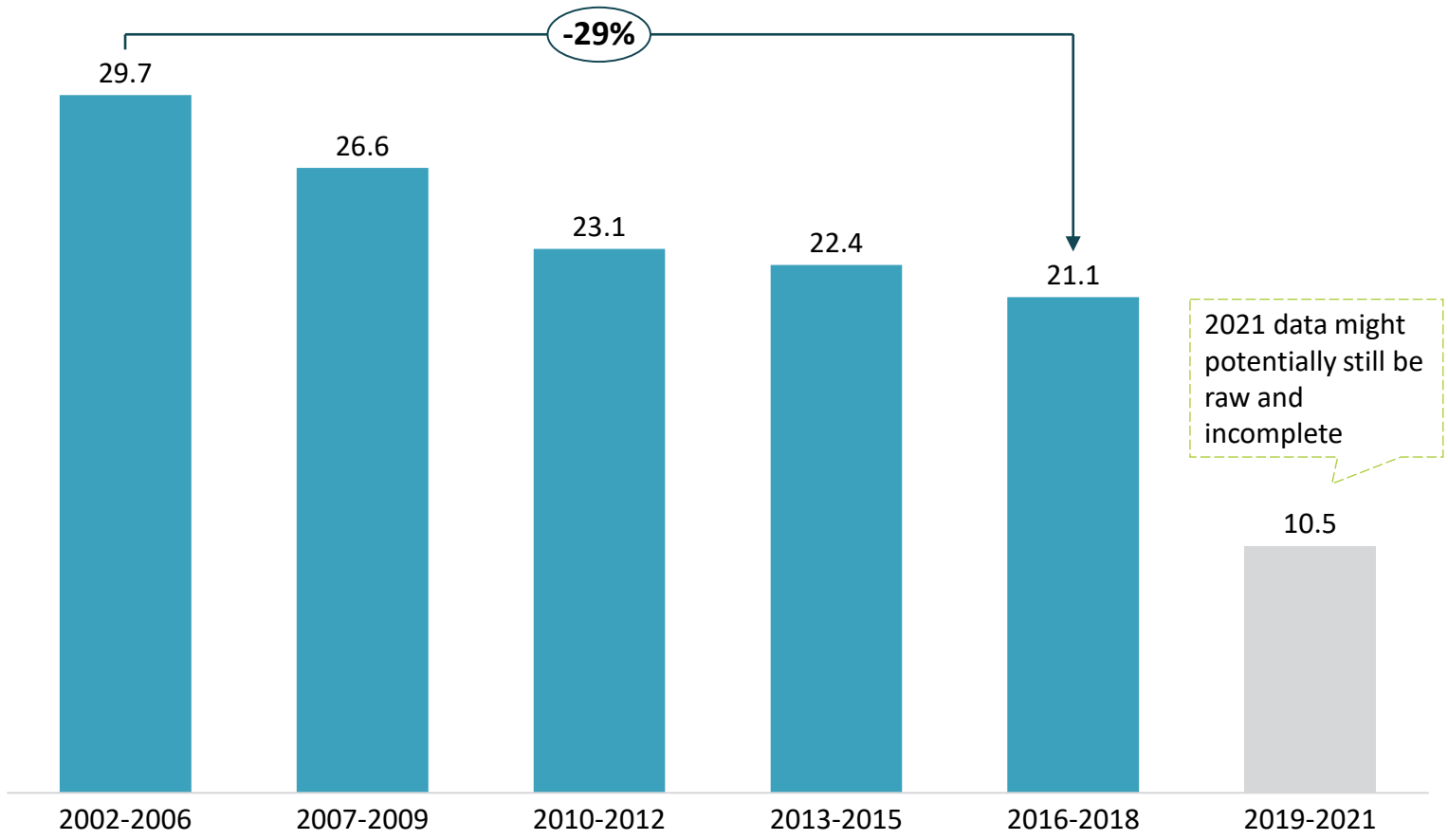
INSIGHTS

- Startups with only local investors present are less likely to move their HQ abroad
- Startups that moved their HQ from Baltics have a much higher share of foreign investors
- It could potentially be that foreign investors agree to invest in a company of certain conditions, e.g., movement of HQ location. Therefore, foreign investment implies relocation to other markets
- Only 166 companies have data on the founding location, which implies quite limited number of observations

3 \ FUNDING: OVER TIME, THE SPEED OF GROWTH HAS BEEN ACCELERATING

AVERAGE TIME BETWEEN FUNDING ROUNDS BY PERIOD WHEN THE COMPANY WAS LAUNCHED*, IN MONTHS, 2002-21

**Regardless of round*



2021 data might potentially still be raw and incomplete

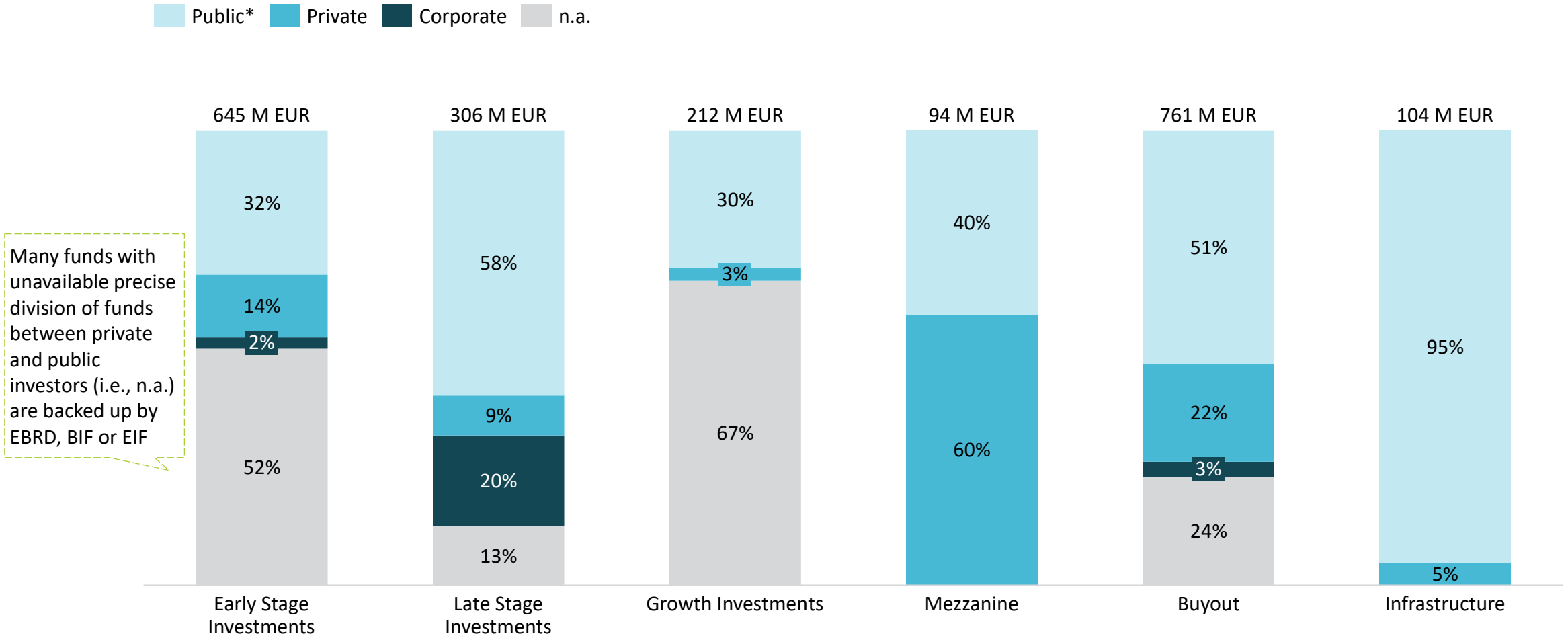
The **average time between advancing funding rounds has been steadily decreasing** in the last 20 years

For companies launched between 2002-2006, the average time between two funding rounds was 29.7 months. For companies launched in 2016-2018, the average time between two funding rounds is 21.1 months

One of the potential reasons is that the number of smaller rounds (i.e., pre-seed and seed rounds) has been rising significantly, and since **the round size is smaller, the frequency of funding rounds is higher**

3 \ VC FUNDING: REGARDLESS OF INVESTMENT STAGE, MOST FINANCIAL RESOURCES COME FROM PUBLIC FUNDING

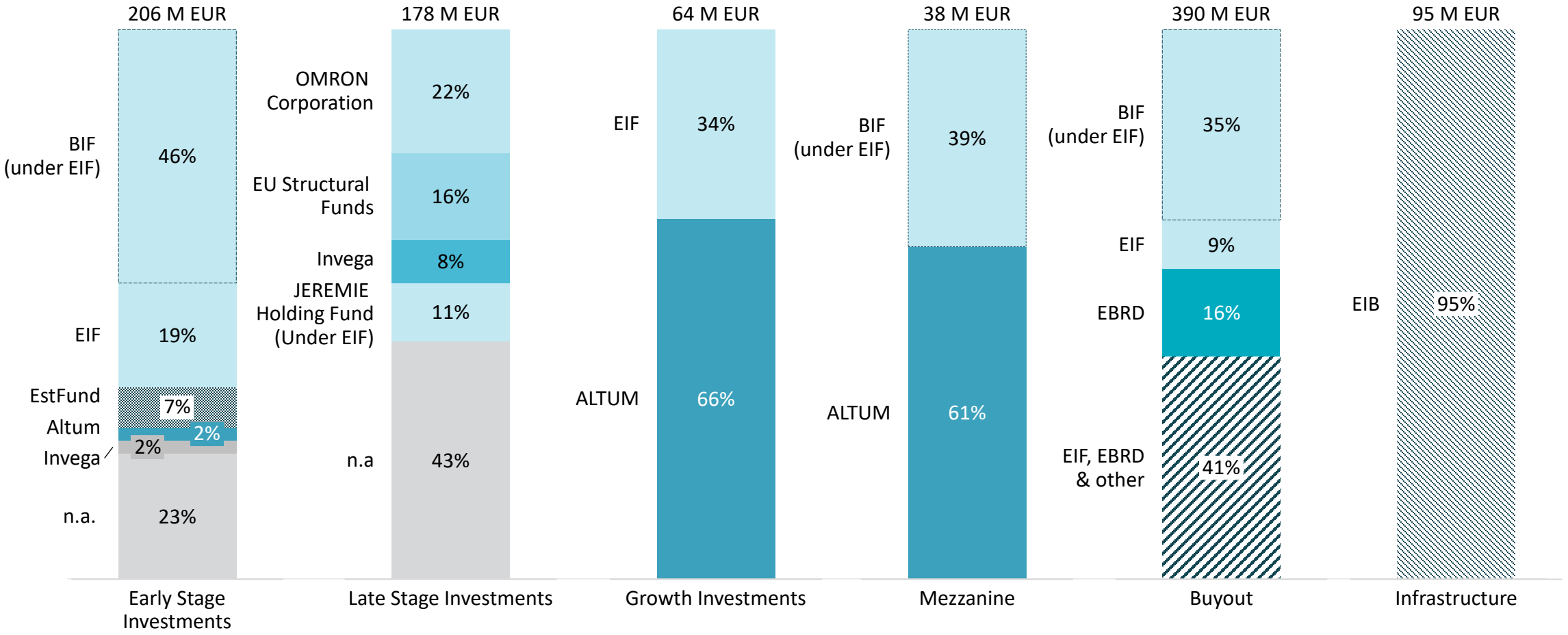
TOTAL FUNDS RAISED AND TO BE INVESTED IN BALTICS BY FUNDING SOURCE AND INVESTMENT STAGE, M EUR AND %, AS OF FEBRUARY, 2022



Source: Baltic Private Equity and Venture Capital Market 2020
*Public funds include - Government agencies, Public pension funds, Insurance companies, Fund of funds, Banks, Sovereign wealth funds, Other asset,managers, Capital market, Public sector, International finance institutions, Endowment funds

VC FUNDING: BIGGEST DONORS TEND TO INVEST IN MULTIPLE DEVELOPMENT STAGES

TOTAL FUNDS RAISED AND TO BE INVESTED IN BALTICS BY THE PUBLIC DONOR AND INVESTMENT STAGE, M EUR AND %, AS OF FEBRUARY, 2022



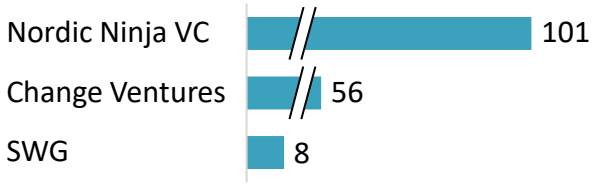
Legend: BIF – Baltic Investment Fund EIF – European Investment Fund EIB – European Investment Bank EBRD – European Bank for Reconstruction and Development

Source: Baltic Private Equity and Venture Capital Market 2020

3 \ VC FUNDING: ESTONIAN EARLY-STAGE VC FUNDS HAVE SIGNIFICANTLY MORE RESOURCES TO FINANCIALLY SUPPORT STARTUPS

TOTAL FUNDS RAISED TO BE INVESTED IN BALTICS EARLY, LATE AND GROWTH VENTURES, M EUR, AS OF FEBRUARY, 2022

PAN-BALTIC

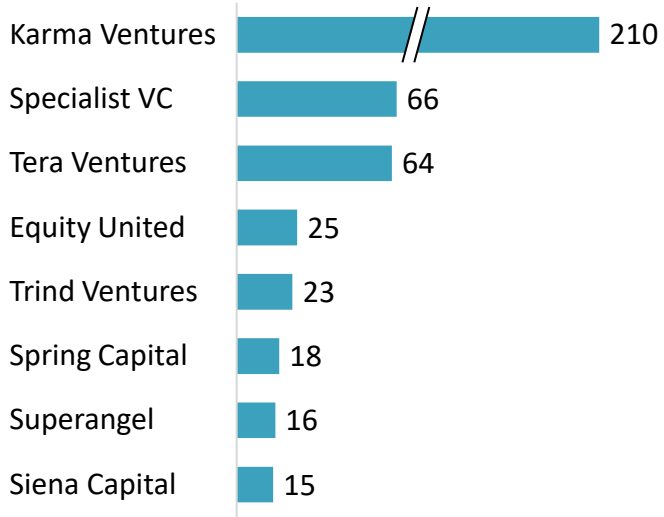


Estonian early stage ventures have the most resources to support startups' establishment, followed by Lithuania and Latvia

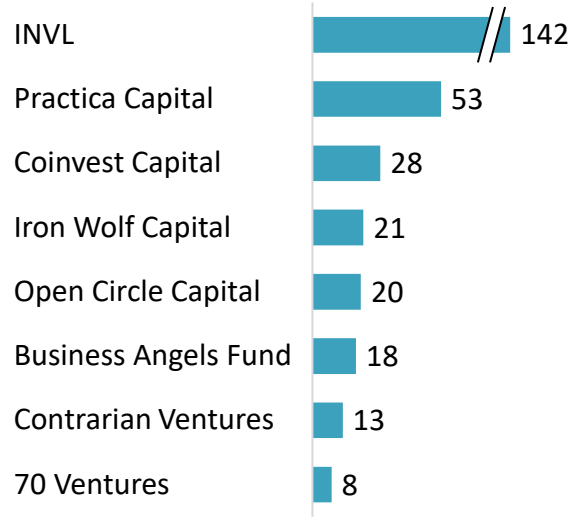
Geographical division was done based on where the majority of the team is located

Superangel and Trind Ventured are currently raising their 2nd funds, which will significantly increase the size of Estonian VC funds

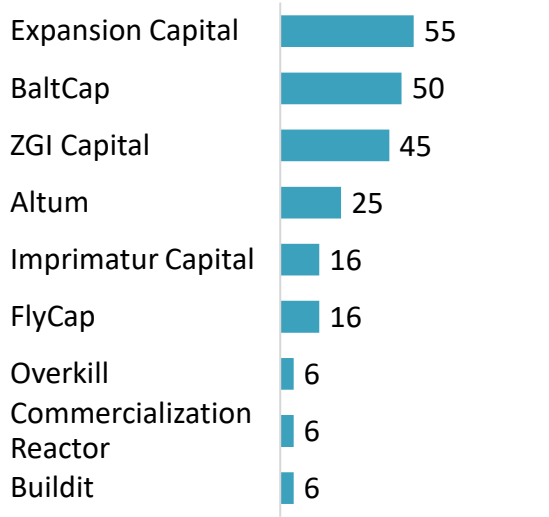
ESTONIA



LITHUANIA



LATVIA

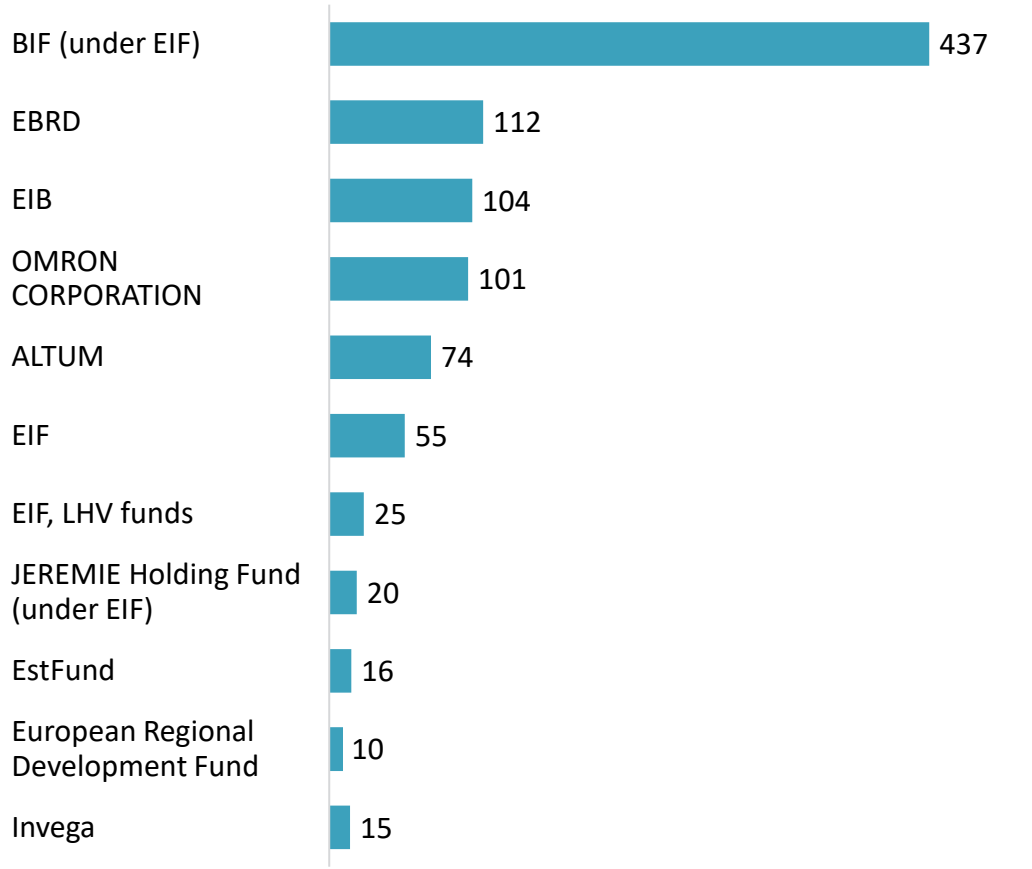


CIVITTA Source: Baltic Private Equity and Venture Capital Market 2020

3 \ VC FUNDING: BALTIC INNOVATION FUND (BIF), EUROPEAN INVESTMENT FUND (EIF), AND EBRD ARE AMONG THE TOP INSTITUTIONS THAT PROVIDE FINANCE TO VC FUNDS

ORGANISATIONS AND THEIR RESOURCES AVAILABLE TO COMPANIES, M EUR, AS OF FEBRUARY, 2022

PAN-BALTIC



Disclaimer: the information on source of resources from financial and international institutions is available only for a limited number of VC funds, thus the presented data does not cover the entire number of financial institutions and financial organizations that provide capital to VC funds

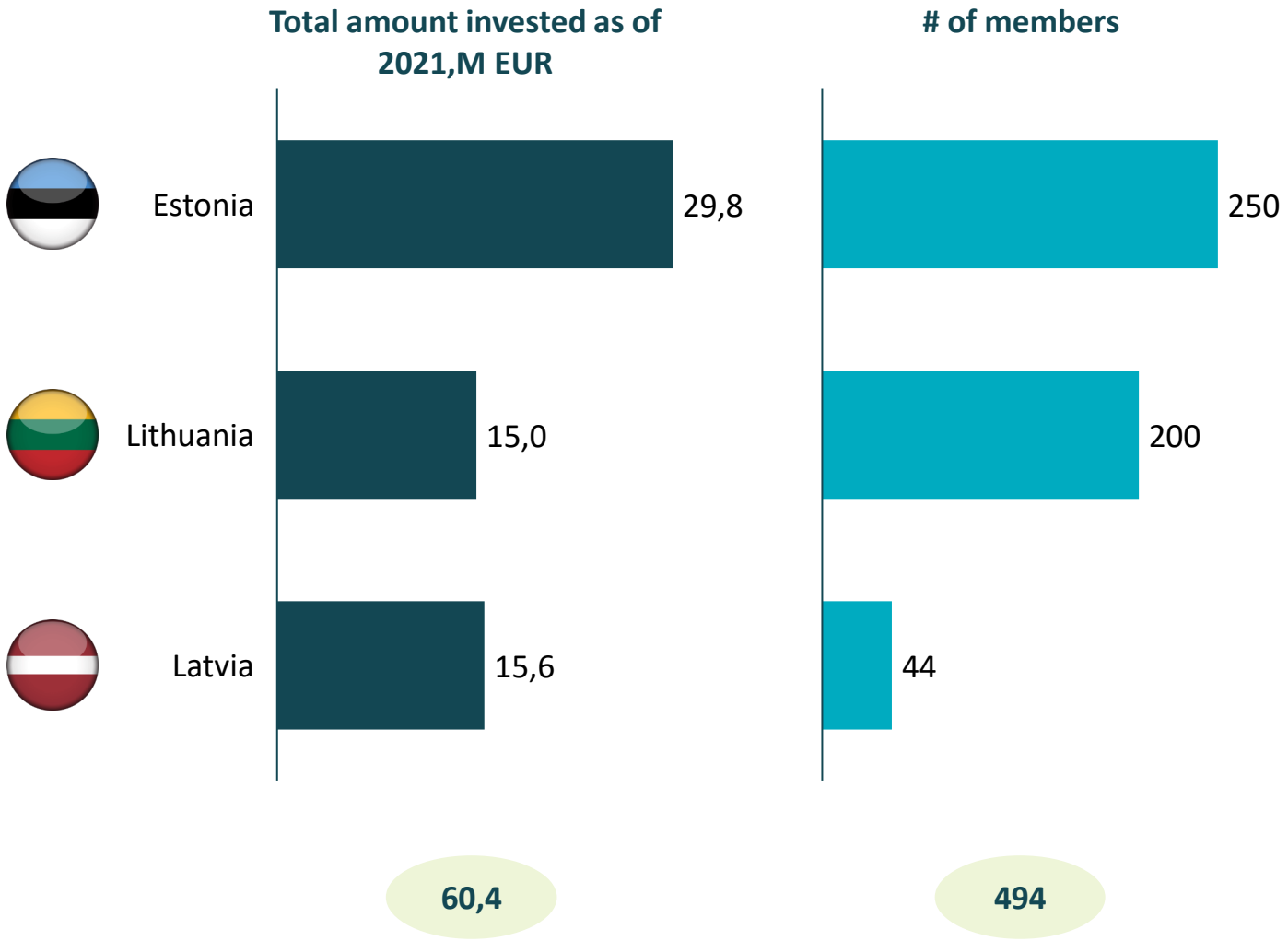
CIVITTA Source: Baltic Private Equity and Venture Capital Market 2020

3 \ FUNDING: APART FROM VC FUNDING, SUCCESSFUL EXIT IS AN IMPORTANT SOURCE OF CAPITAL FOR NEXT STARTUP CREATION

Baltic startups have produced 75 exits; the value of the exits is at least EUR 15 billion

Source: Crowdsourced lists in each country

3 \ FUNDING: BUSINESS ANGELS IN THE BALTICS INVESTED MORE THAN 60 M EUR IN STARTUPS



INSIGHTS

- Estonian Business Angel Network is the oldest one, established in 2012, while Lithuanian is the most recently founded in 2018 and fastest growing
- More than 70% of all angel investments in Estonia are under 20k EUR
- 2021 was the most active year for Business Angels in the Baltics – i.e., 70% of total amount invested by Lithuanian angels were done in 2021
- Additionally, in 2021 all three organizations significantly increased the number of their members

CIVITTA Source: EstBAN, LitBAN, LatBAN

3 \ FUNDING: TOP 10 MOST ACTIVE BUSINESS ANGELS IN EACH BALTIC COUNTRY MOSTLY FOCUS ON SEED AND PRE-SEED INVESTMENTS

Business Angel Name	Industry focus	Typical ticket size
1. Dag Ainsoo	B2B, SaaS, Enterprise	$50-150K
2. Ivo Remmelg	B2B, SaaS, Marketplace	$10-50K
3. Ragnar Sass	B2B, SaaS, Enterprise	$50-150K
4. Ott Kaukver	B2B, SaaS	$50-150K
5. Martin Villig	B2B, B2C, SaaS, Edtech	$10-50K
6. Taavi Tamkivi	B2B, SaaS, Enterprise	$10-50K
7. Kair Käsper	No sector focus	$10-50K
8. Lev Dolgatsjov	B2B, SaaS	$10-50K
9. Herty Tammo	No sector focus	$10-50K, $50-150K
10. Lauri Antalainen	ICT, Gaming	$10-50K

Business Angel Name	Industry focus	Typical ticket size
1. Thomas Plantenga	Enterprise, Media	$10-50K, $50-150K
2. Mantas Mikuckas	Media, Transport	$10-50K
3. Justas Janauskas	Edtech, Gaming	$10-50K
4. Igor Matsanyuk	No sector focus	$10-50K
5. Mikael Hed	No sector focus	$10-50K, $50-150K
6. Alireza Ghahraman	Marketing	$10-50K
7. Daiva Rakauskaite	Healthtech	$10-50K
8. Andrius Šlimas	Marketing	$10-50K
9. Darius Matuliauskas	Gaming, Media	$10-50K
10. Donatas Stonkus	No sector focus	$5-10K

Business Angel Name	Industry focus	Typical ticket size
1. Artis Kehris	Marketplace, B2B, B2C	$10-50K
2. Janis Krums	No sector focus	$10-50K, $50-150K
3. Juris Grisins	No sector focus	$50-150K, >$150K
4. Karlis Cerbulis	No sector focus	$10-50K
5. Cyril Golub	B2B, SaaS, Enterprise	$10-50K
6. Toby Moore	Enterprise, Fintech	$10-50K
7. Voldemars Bredikis	Edtech, Medtech	$10-50K
8. Davis Barons	Enterprise, Marketplace	$50-150K, >$150K
9. Svens Dinsdorfs	No sector focus	$10-50K
10. Uldis Dzerve	B2B, B2C, SaaS	$5-10K, $10-50K

AFTER INVESTIGATING FUNDING, WE EXAMINED DIFFERENCES IN SUCCESS RATES OF BALTIC STARTUPS IN DIFFERENT FUNDING ROUNDS

STARTUP SCENE IN THE BALTICS

1

General dynamics

- How has the overall number of startups evolved? How many startups matter in terms of their impact/value creation?

2

Industries' focus

- On what industries do startups focus? How does it compare to global growth trends in other ecosystems?

3

Funding

- How has the overall VC funding evolved over time? What are the largest deals and most funded companies?

4

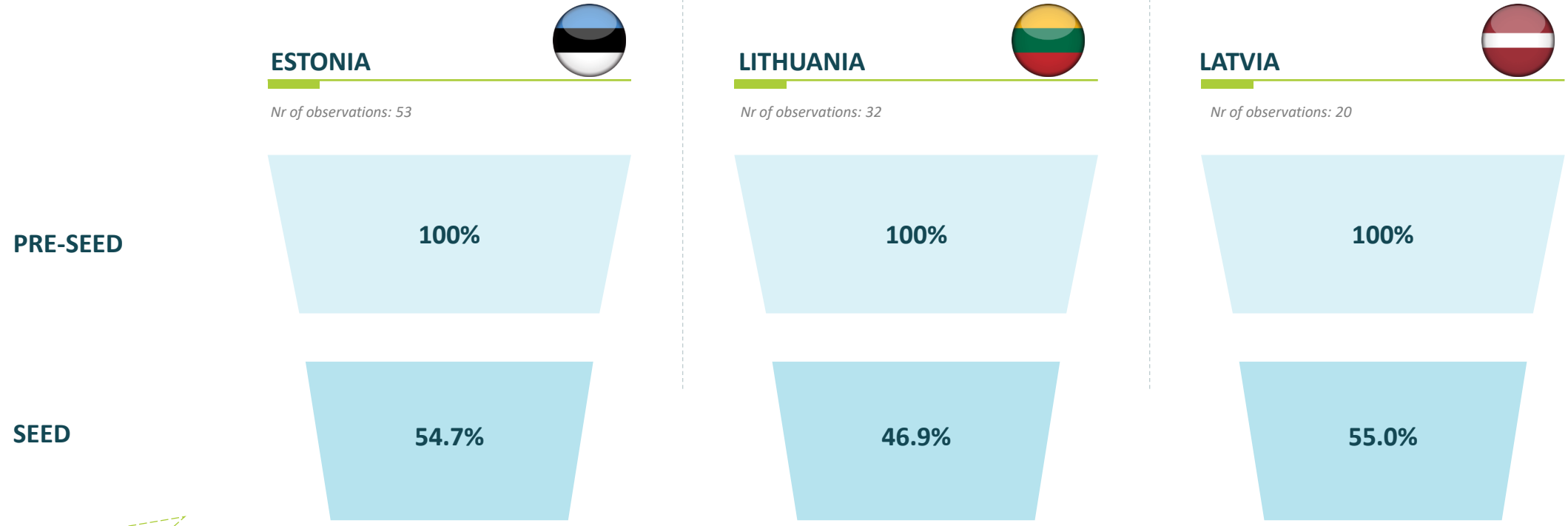
Success funnels

- How do startups compare in terms of their success rate across countries? How do we progress from round to round?

CIVITTA Source: CIVITTA methodology

4 \ SUCCESS FUNNELS: ROUGHLY HALF OF THE STARTUPS PROCEED TO SEED ROUND FROM THE PRE-SEED ROUND

SUCCESS FUNNELS OF STARTUPS BY COUNTRY



Number of observations is quite low due to small number of companies starting their financing journey from the pre-seed round specifically

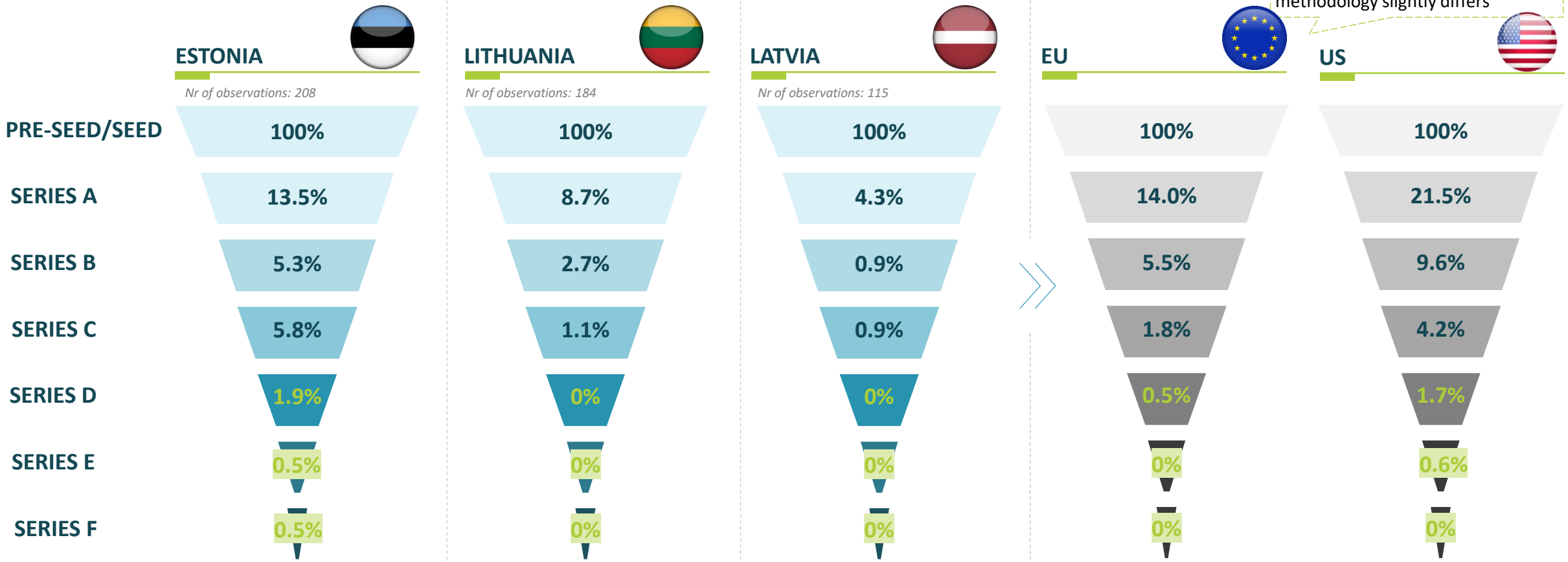
Note: Success funnels built based on Dealroom data. Only startups which reported a Seed round in 2000-18 (incl.) are included into analysis. % indicates percentage of companies that managed to get to the given round out of those which had a Seed round in the given period. Self-declared round names are used for the analysis

CIVITTA Source: CIVITTA analysis based on Dealroom data

4 \ SUCCESS FUNNELS: HOWEVER, NOT MANY OF THEM PROGRESS TO SERIES A OR LOWER, ESPECIALLY IN LITHUANIA AND LATVIA

SUCCESS FUNNELS OF STARTUPS BY COUNTRY

While EU and US funnels are comparable to Baltic funnels, methodology slightly differs



Note: Success funnels built based on Dealroom data. Only startups which reported a Seed round in 2000-18 (incl.) are included into analysis. % indicates percentage of companies that managed to get to the given round out of those which had a Seed round in the given period. Self-declared round names are used for the analysis

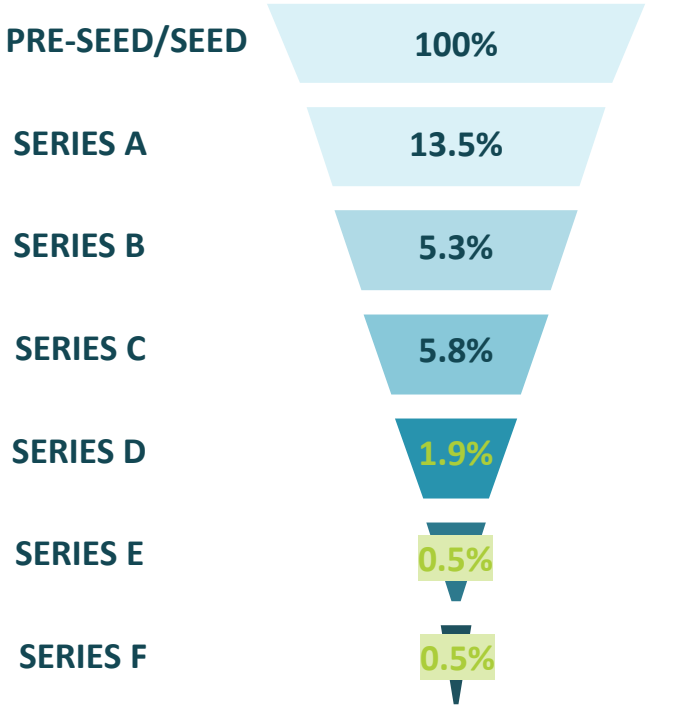
CIVITTA Source: CIVITTA analysis based on Dealroom data

4 \ SUCCESS FUNNELS: IRRESPECTIVE OF FUNDING STAGE, MANY STARTUPS MANAGE TO GET >1 ROUND, SUGGESTING THAT THEY GET CAPPED AT THE SAME FUNDING STAGE

SUCCESS FUNNEL OF STARTUPS

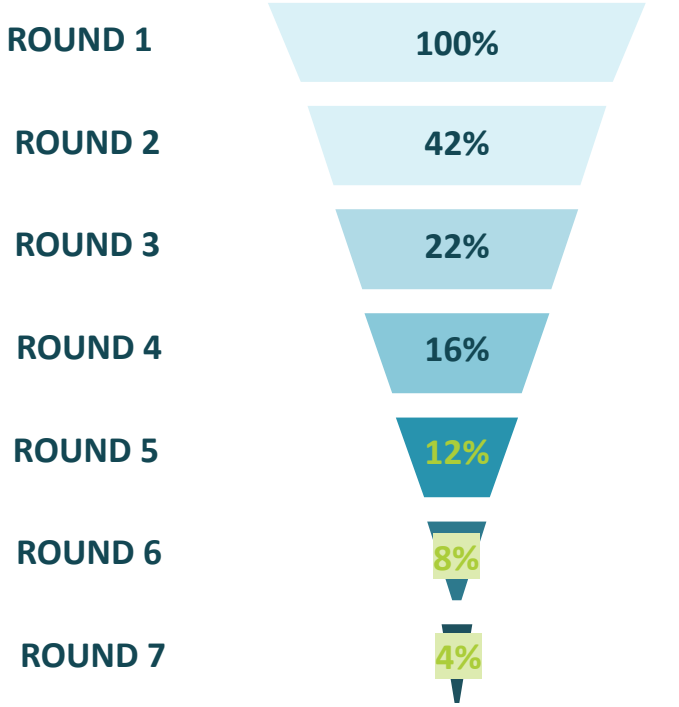
ESTONIA

Nr of observations: 208



ESTONIA

Nr of observations: 208



Many companies participate in several rounds but do not advance from one stage to another

Note: Success funnels built based on Dealroom data. Only startups which reported a Seed round in 2000-18 (incl.) are included into analysis. % indicates percentage of companies that managed to get to the given round out of those which had a Seed round in the given period. Self-declared round names are used for the analysis

Agenda

1. **Startups in the Baltics**
   - Startup scene overview
   - **Key success differentiators**
   - Startups' impact on economies
2. Ecosystem health check
3. Policies & regulations
4. Interviews & survey results
5. Recommendations
6. Methodology Note

\ SECTION SUMMARY: SUCCESSFUL STARTUPS ARE ASSOCIATED WITH HIGHER REVENUE, HIGHER FUNDING, AND HAVING SERIAL ENTREPRENEURS IN THEIR FOUNDING TEAMS

Key success differentiators

- **To determine key success differentiators,** we analysed different cuts for startups:
  - **Startups' year of launch:** Older startups show better performance than the younger ones (higher revenue, higher average funding, and greater % of successful companies[1]), though younger startups currently get funded more often
  - **Founders' background**: Founders' background has a profound impact on potential startup success; first, startups with at least one serial founder significantly increase chances for success; second, founders with previous experience in business and entrepreneurship are more likely to raise successful startup (vs, e.g., social sciences background)
  - **Funding**: Similarly to founder's seriality, attracting funding is also one of the key prerequisites for company's ability to succeed. Also, startups that receive foreign funds in the first round are generally more successful.
    - **Amounts:** The higher the amount raised in a Seed round or a Series A round, the higher the success rate as well
  - **Client focus**: Companies with client focus on both business (B2B) and consumers (B2C) seem to be more successful
  - **Business model**: Startups that focus on marketplace and SAAS demonstrate better success rates than manufacturing startups
  - **Industries**: Fintech startups are dominating and represent the most successful segment of startups
- Overall, **successful startups are associated with higher revenue, higher funding, and having serial entrepreneurs in their founding teams**

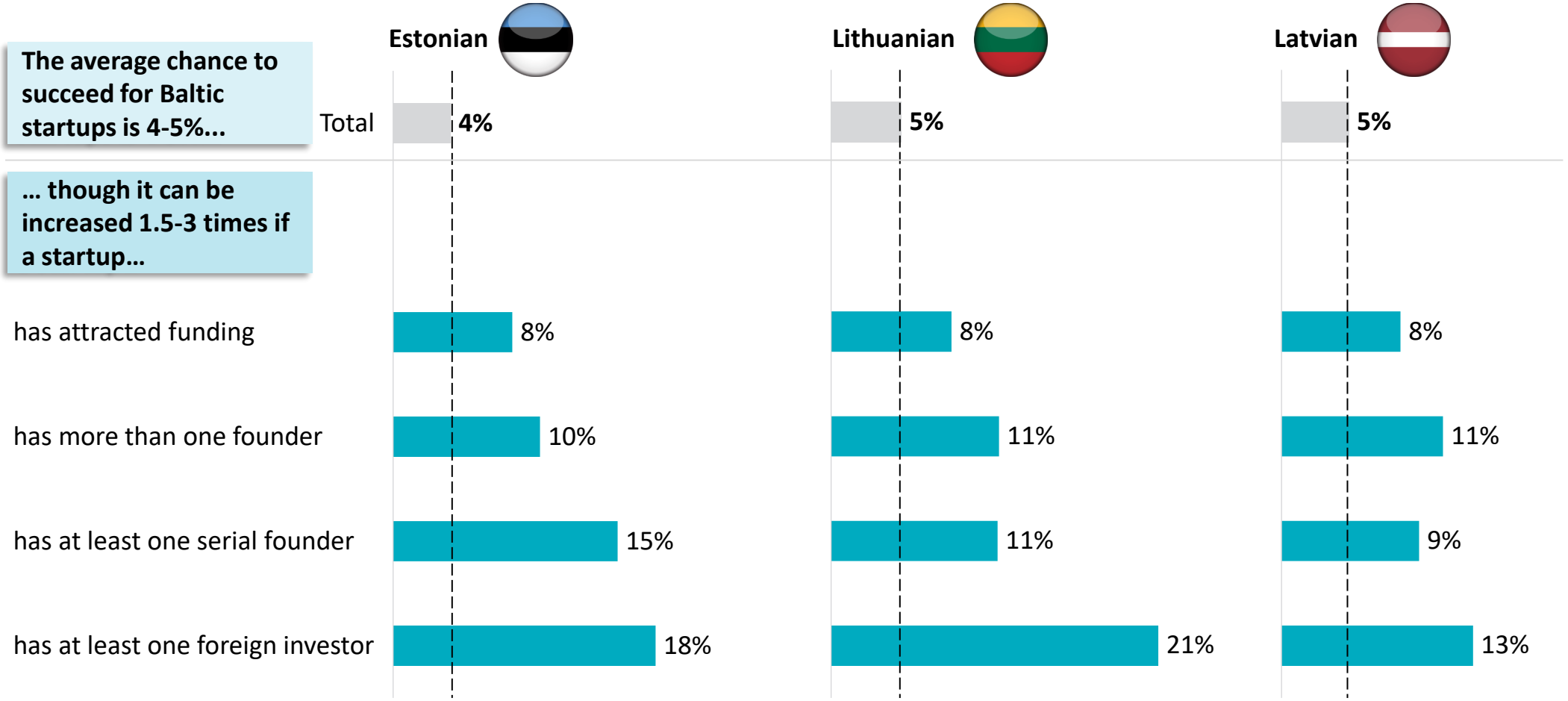
1 - As successful startups CIVITTA evaluated companies that achieved 50 employee count in 2020

BUILDING STARTUPS IS DIFFICULT

% OF SUCCESSFUL STARTUPS (I.E., HAVING MORE THAN 50 EMPLOYEES)

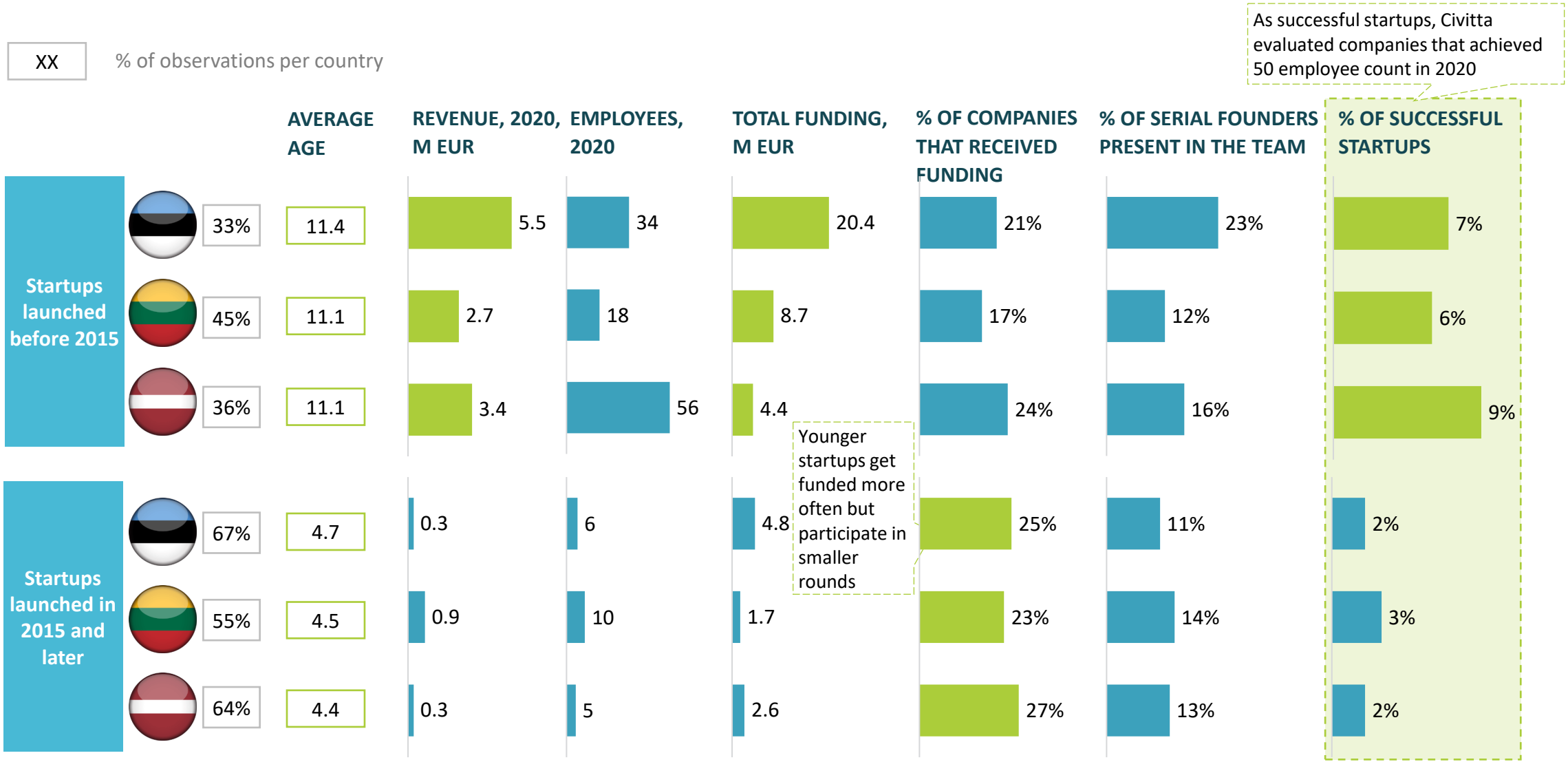
The average chance to succeed for Baltic startups is 4-5%...

... though it can be increased 1.5-3 times if a startup...



Source: CIVITTA analysis based on Dealroom data

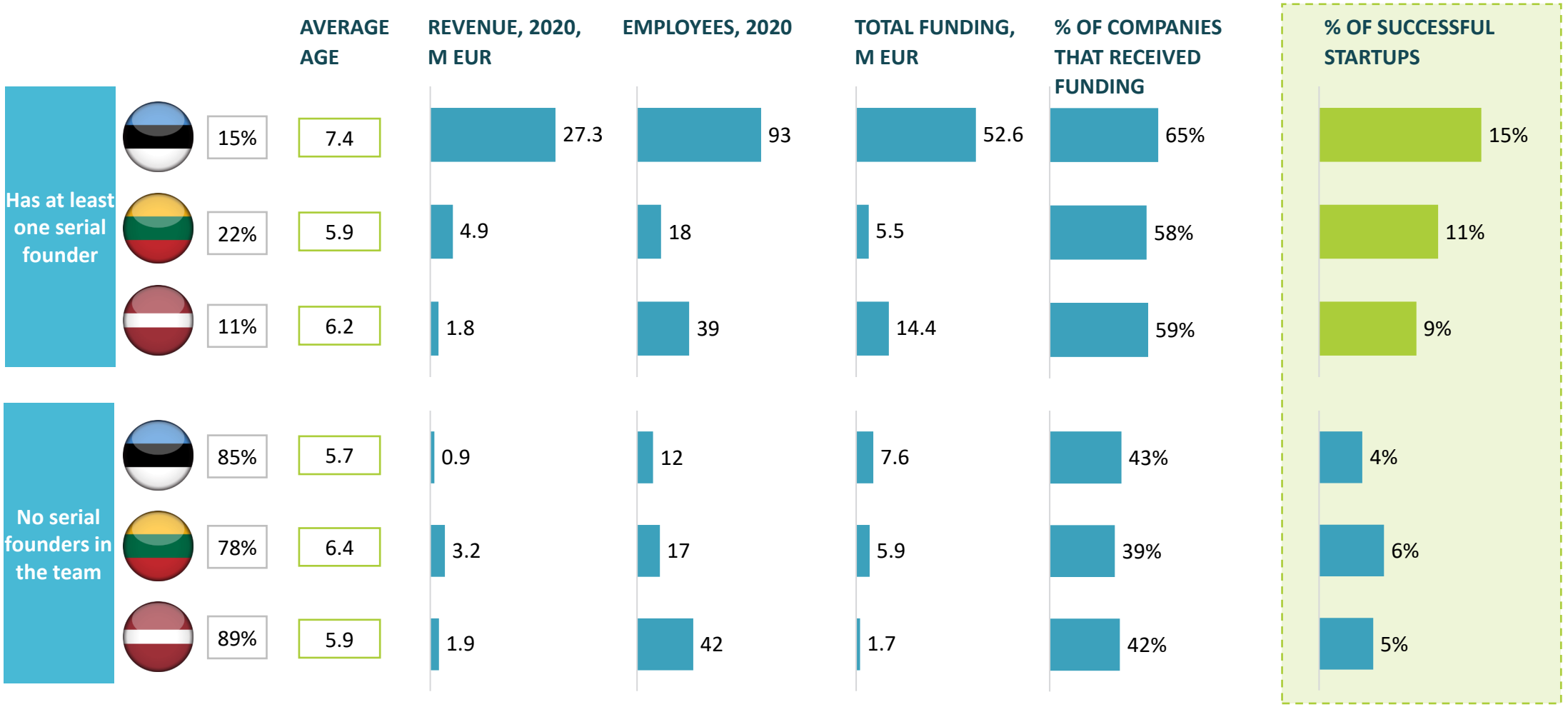
AGE: WHILE OLDER STARTUPS SHOW BETTER PERFORMANCE THAN YOUNGER ONES, YOUNGER STARTUPS ARE GETTING FUNDED MORE OFTEN



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
*Calculated for smaller sample of companies for which longer history is available

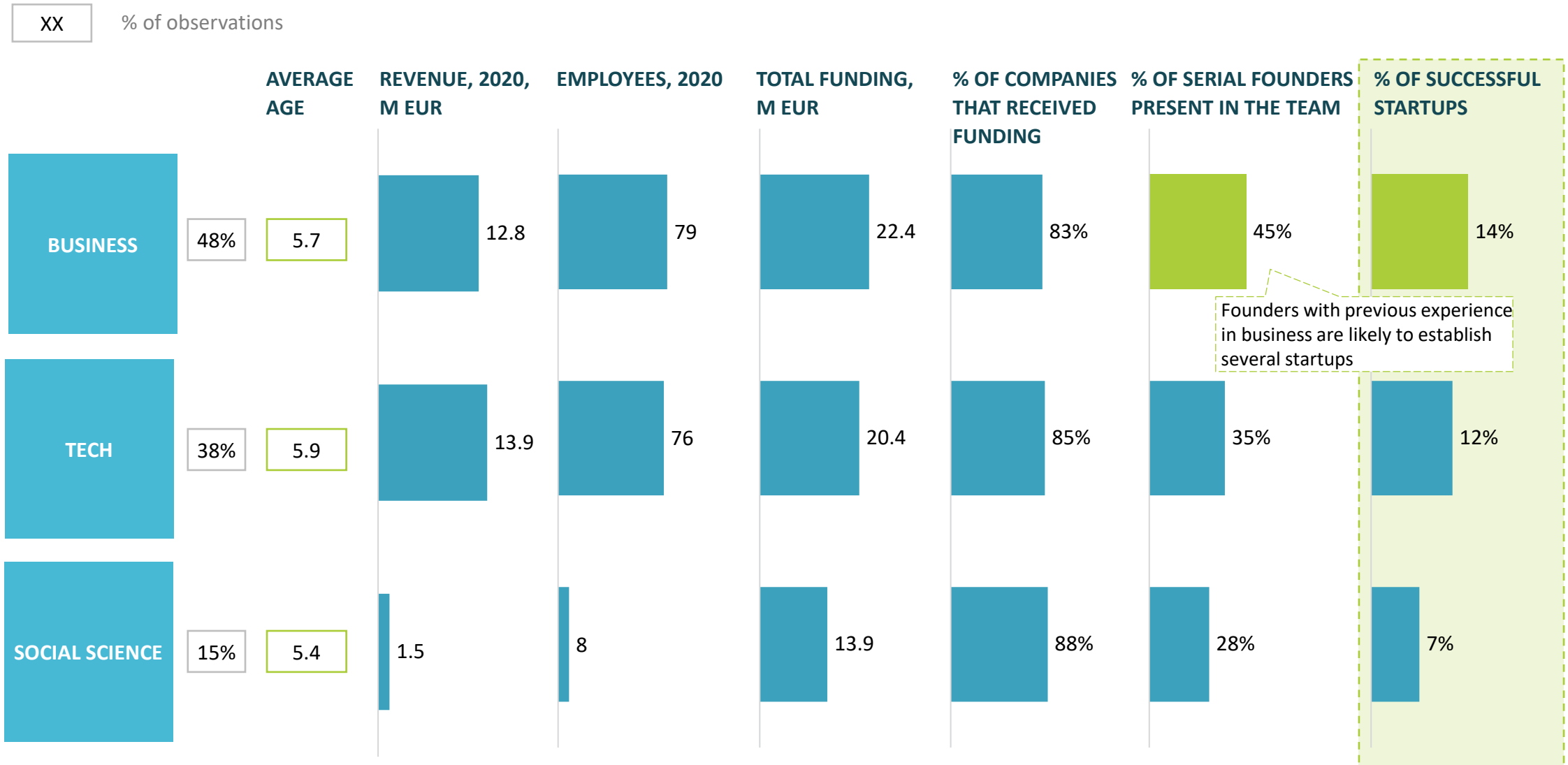
SERIALITY: FOUNDER'S PREVIOUS EXPERIENCE AND NETWORK ARE ESSENTIAL FOR A STARTUP SUCCESS

XX % of observations per country



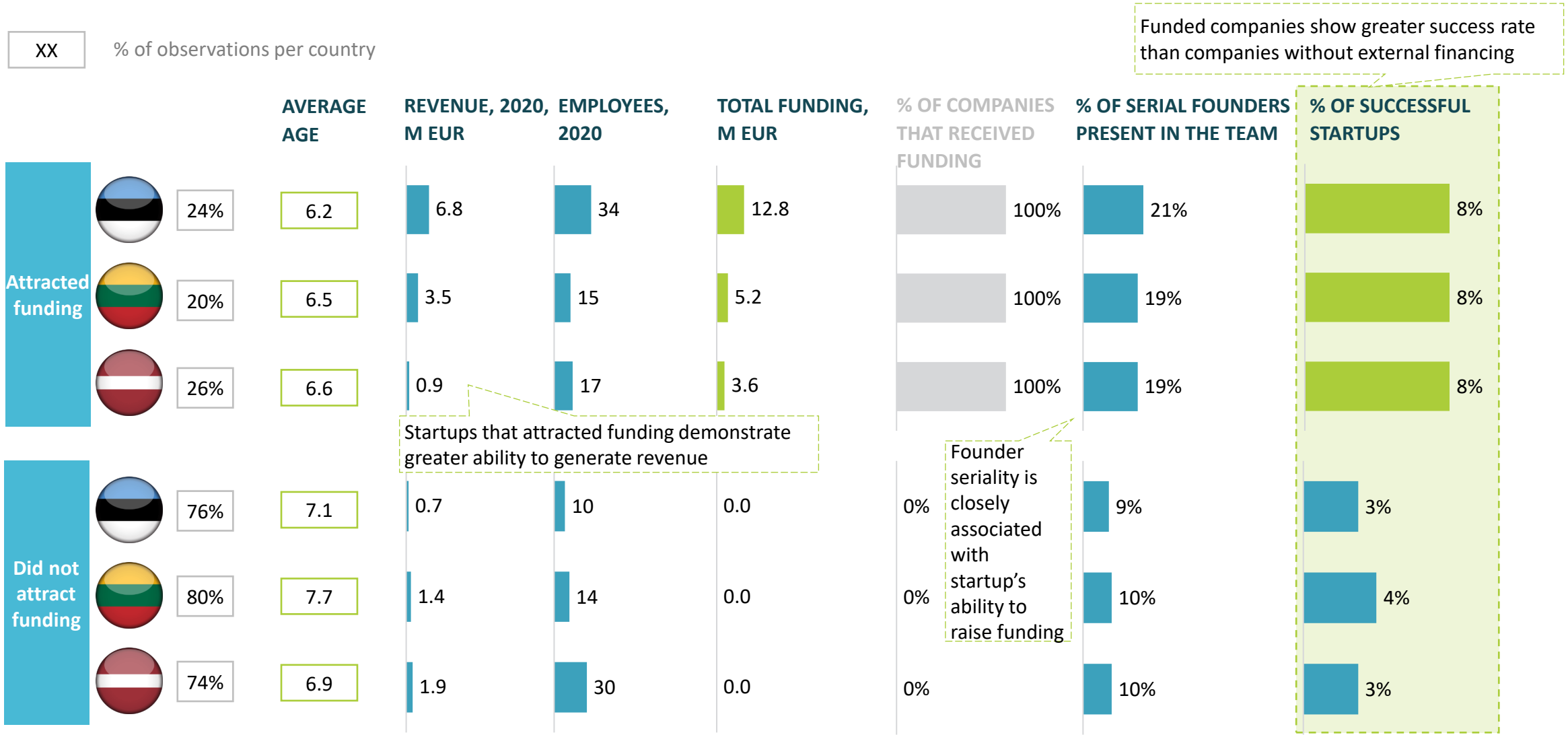
Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
*Calculated for smaller sample of companies for which longer history is available

\ FOUNDER BACKGROUND: FOUNDERS WITH PREVIOUS EXPERIENCE IN BUSINESS AND ENTREPRENEURSHIP ARE MORE LIKELY TO RAISE A SUCCESSFUL STARTUP



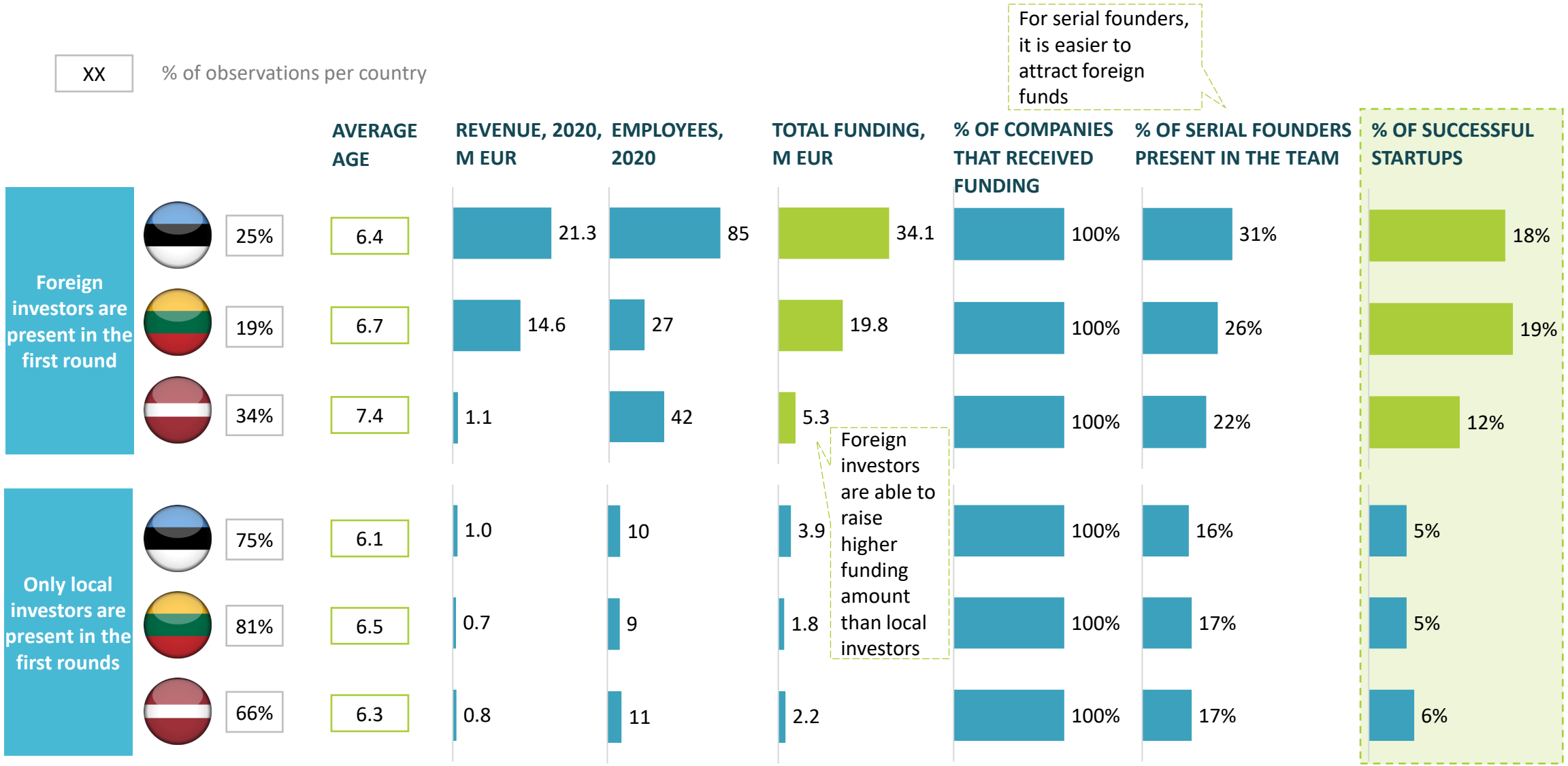
Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
*Calculated for smaller sample of companies for which longer history is available

FUNDING: THE ABILITY TO ATTRACT FUNDING IS ONE OF THE KEY PREREQUISITES FOR SUCCESS



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
*Calculated for smaller sample of companies for which longer history is available

\ FIRST INVESTOR: COMPANIES THAT RECEIVE FOREIGN FUNDS IN THE FIRST ROUND ARE GENERALLY MORE SUCCESSFUL



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
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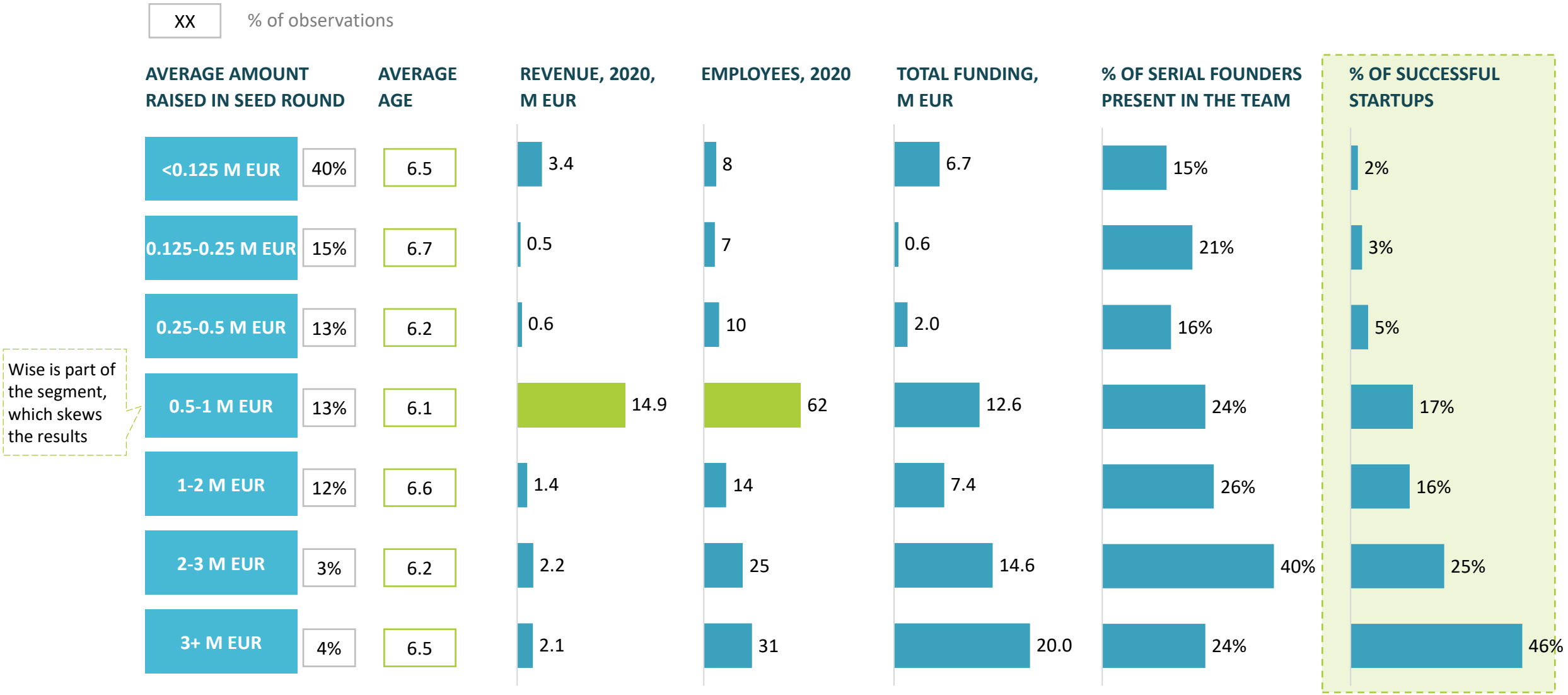
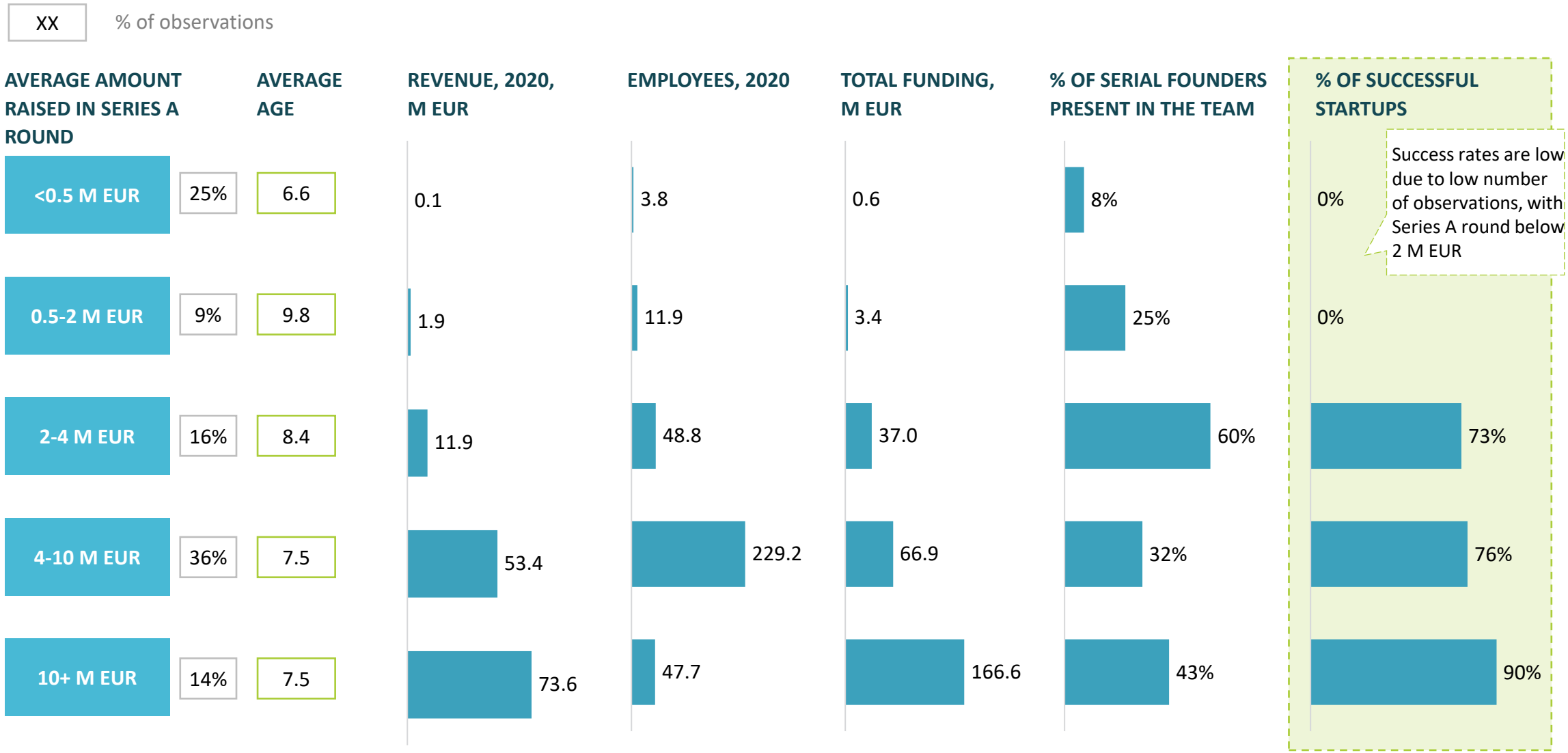
SEED AMOUNTS: GENERALLY, THE HIGHER THE AMOUNT RAISED BY A STARTUP IN A SEED ROUND, THE HIGHER THE SUCCESS RATE



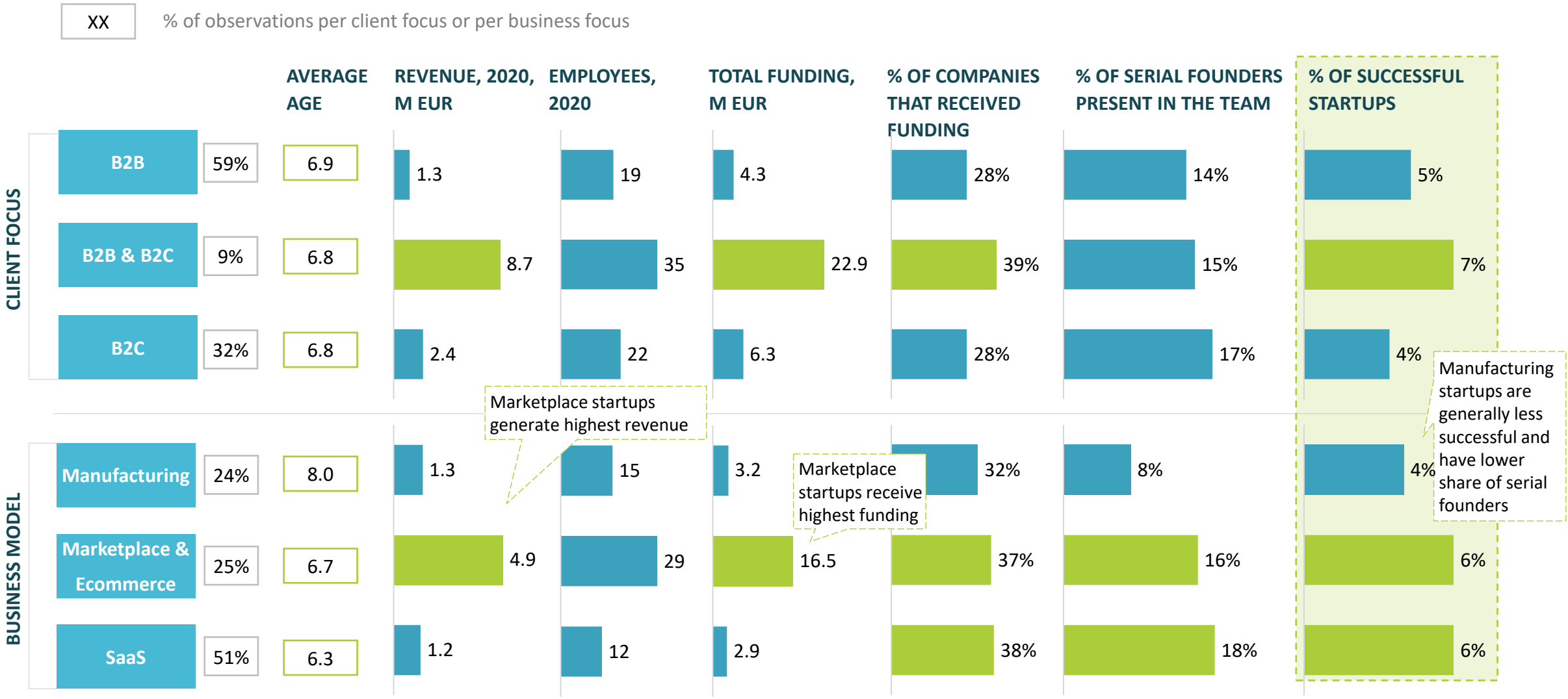
Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
*Calculated for smaller sample of companies for which longer history is available

SERIES A AMOUNTS: SIMILARLY, THE HIGHER THE AMOUNT RAISED BY A STARTUP IN SERIES A ROUND, THE HIGHER THE SUCCESS RATE



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
*Calculated for smaller sample of companies for which longer history is available

\ CLIENT FOCUS & BUSINESS MODEL: MARKETPLACE, SAAS AND COMPANIES WITH CLIENT FOCUS ON BOTH BUSINESSES AND CONSUMERS ARE MOST SUCCESSFUL



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
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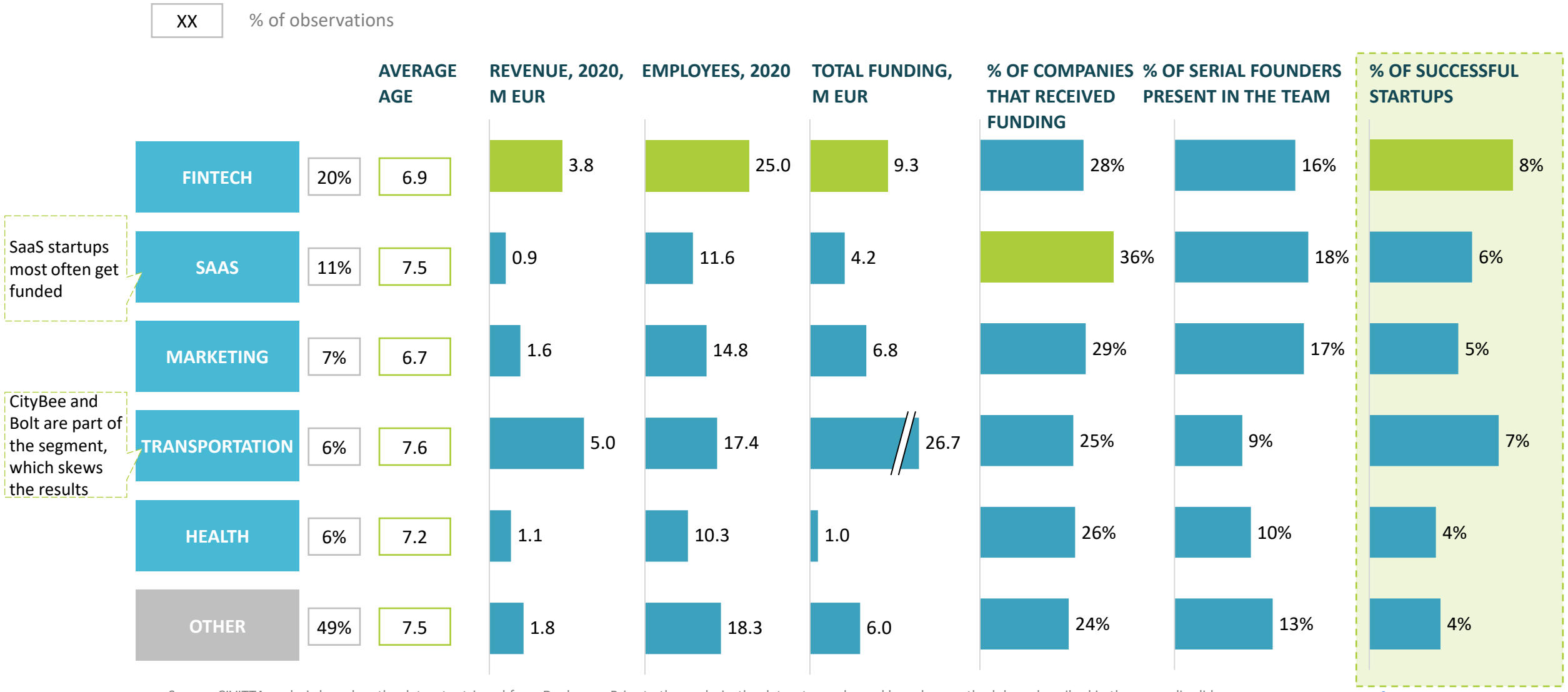
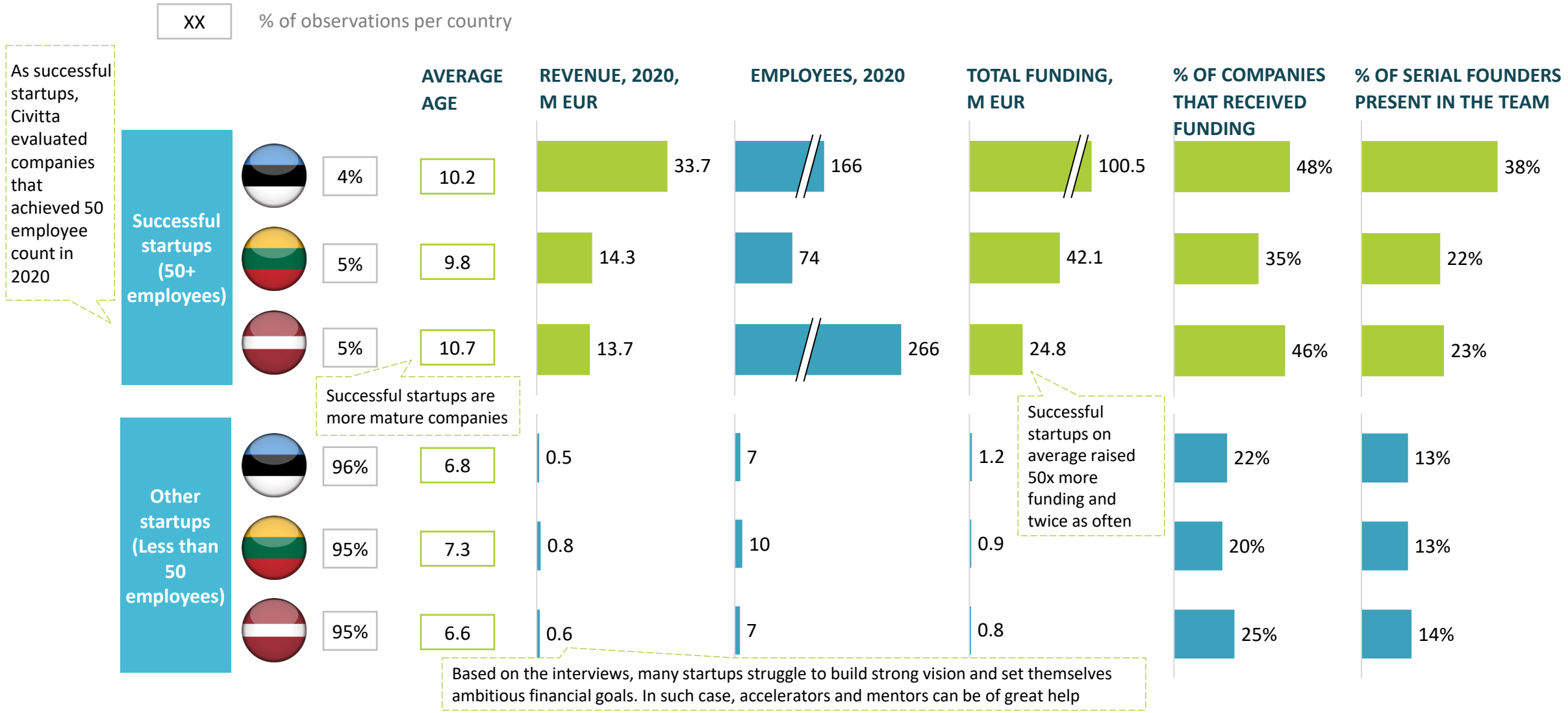
INDUSTRIES: FINTECH STARTUPS REPRESENT THE MOST SUCCESSFUL SEGMENT OF STARTUPS BY INDUSTRY



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
*Calculated for smaller sample of companies for which longer history is available

\ SUCCESSFUL STARTUPS: OVERALL, SUCCESSFUL STARTUPS ARE ASSOCIATED WITH HIGHER REVENUE, HIGH FUNDING, AND FOUNDER SERIALITY



Source: CIVITTA analysis based on the dataset retrieved from Dealroom. Prior to the analysis, the dataset was cleaned based on methodology described in the appendix slide
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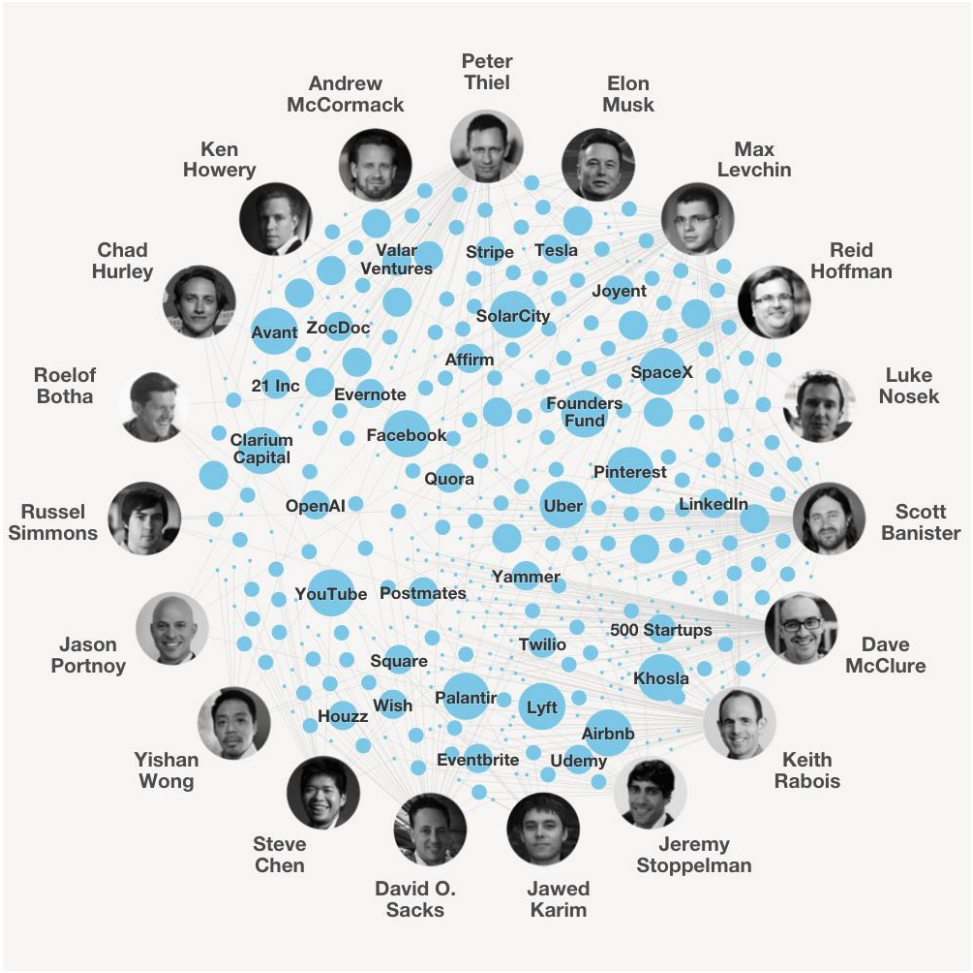
Agenda

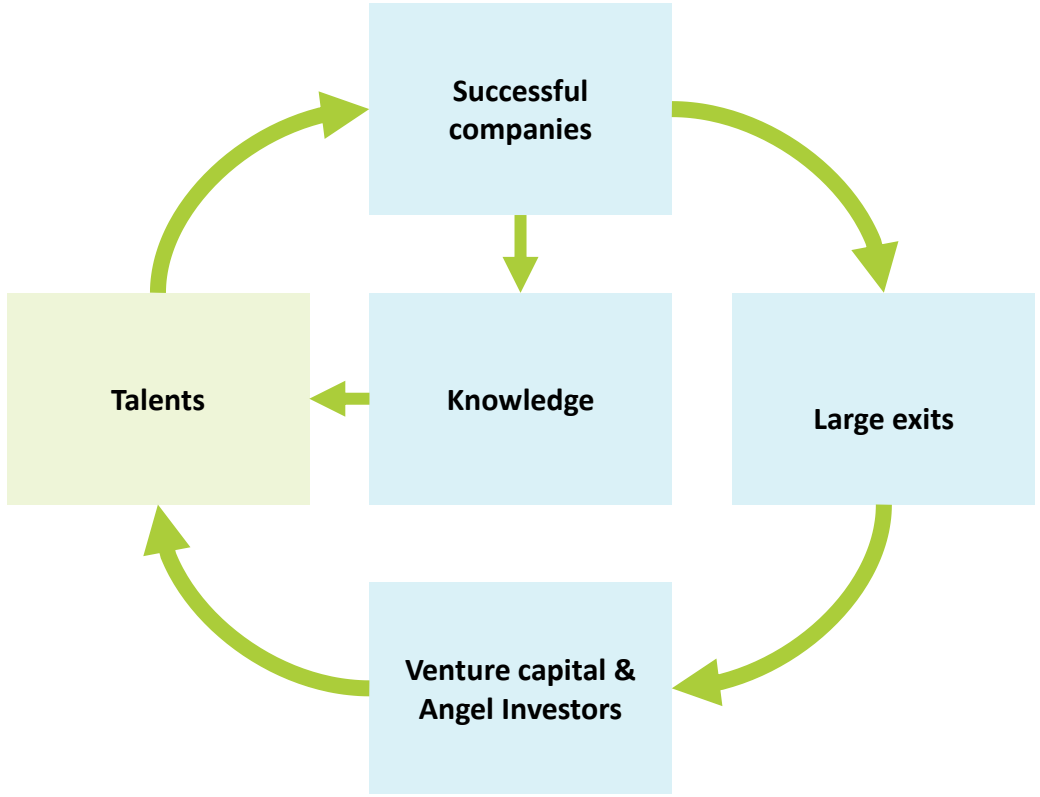
1. **Startups in the Baltics**
   - Startup scene overview
   - Key success differentiators
   - **Startups' impact on economies**
2. Ecosystem health check
3. Policies & regulations
4. Interviews & survey results
5. Recommendations
6. Methodology Note

FLYWHEEL EFFECT – SUCCESS BRINGS SUCCESS

PayPal Mafia



Flywheel effect of building unicorns



SECTION SUMMARY: THE DEVELOPMENT OF A STARTUP ECOSYSTEM HAS A RELATIVELY SMALL BUT POSITIVE IMPACT ON THE OVERALL WELL-BEING OF THE BALTIC REGION

ECONOMIC IMPACT

- The economic impact from development of a startup ecosystem can be divided into:
  - Direct impact, which includes **revenue** generation, **sector job creation**, and **additional tax injections** into state budgets
  - Indirect impact, which is most clearly expressed through the inflow of **foreign investment** into countries and greater purchasing power of consumers (through higher salaries than countries' median ones)
- Though startups still **represent a small percentage in countries' FDIs, employment, and taxes**, **their contribution is constantly growing**, in most cases faster than for any other traditional industry (manufacturing, wholesale & retail, etc.)
- Startups have **a very positive impact on consumer spending**, mainly due to offering salaries that are 2x the national median wage
- Startups also promote **the inflow of highly qualified foreign workforce**

SOCIAL AND ENVIRONMENTAL IMPACT

- Among the SDG goals, Baltic startups mostly focus on **well-being, clean energy, industry innovations, and climate action goals**
- There are several large players in the Baltics (e.g., Lithuanian startup Vinted) that have **reached maturity** and have a **significant impact on social and environmental issues** not only within home countries, but across the whole **European region** thanks to their international reach

STARTUPS' GROWTH HELPS DRIVE ECONOMIC GROWTH AND SUSTAINABILITY GOALS ADVANCEMENT

- **STARTUP IMPACT**
  - **ECONOMIC IMPACT**
    - **Direct impact**
      - Revenue generation
      - Jobs creation
      - Taxes to state budgets
    - **Indirect impact**
      - Investments inflow in the country
      - Greater customers' purchasing power
  - **SOCIAL & ENVIRONMENTAL IMPACT**
    - **Primary impact**
      - New social opportunities and inclusion through job creation
    - **Secondary impact**
      - Local and/or environmental impacts to the local ecosystem
    - **Tertiary impact**
      - Strengthening collaboration between the private, public and citizen sectors

Startups are key accelerators to increase the scale and diffusion of solutions addressing **global challenges** and could be considered as an enabler for the implementation of the global **Sustainable Development Goals (SDGs)**

CIVITTA Source: CIVITTA methodology

BALTIC STARTUPS ARE CREATING POSITIVE ECONOMIC IMPACT

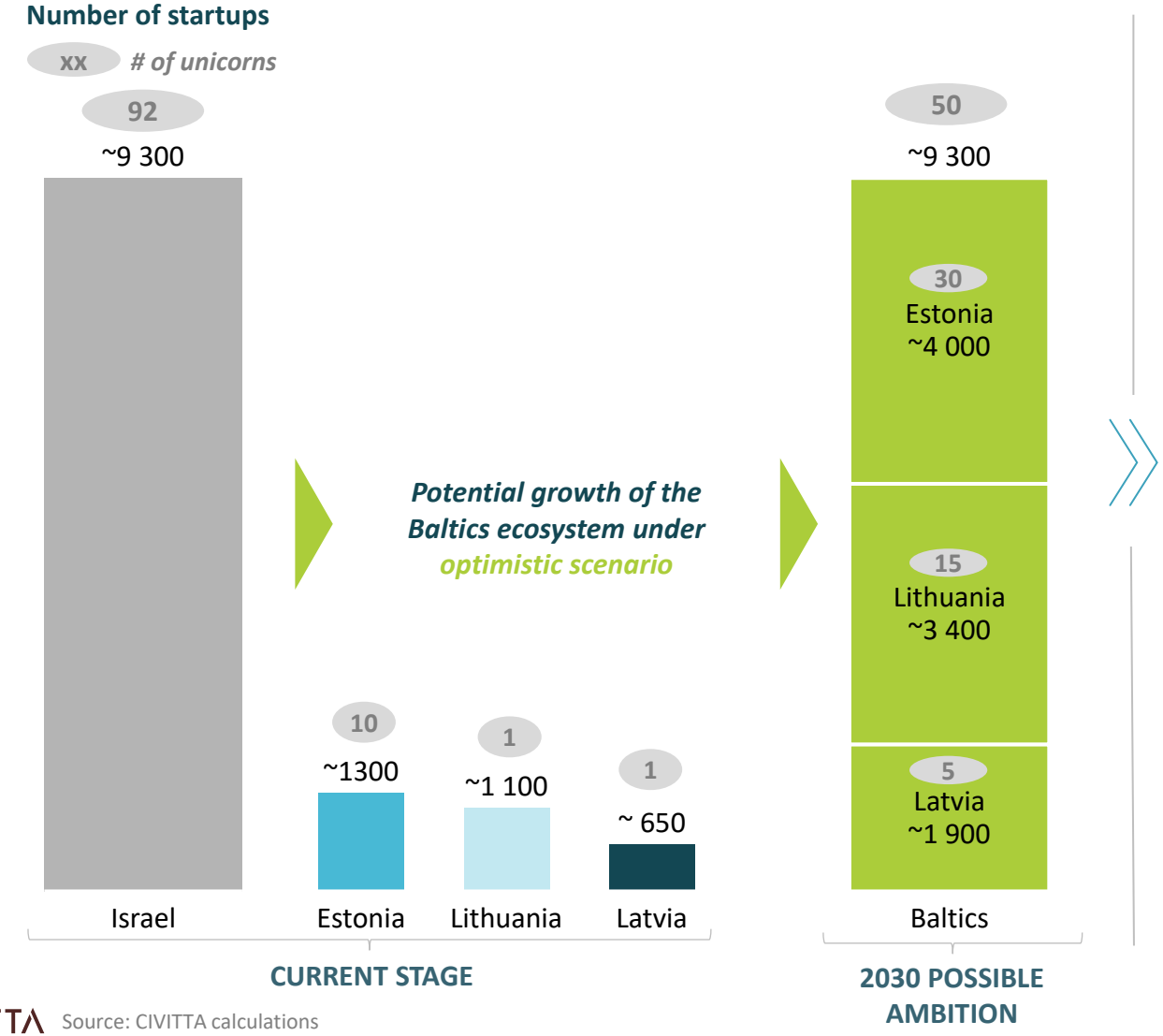
ECONOMIC IMPACT, 2021		Estonia	Lithuania	Latvia*
EMPLOYMENT	# of employees	8,200	13,200	6,000
COMPANIES' REVENUE	annual EUR m	1,400	1,800	450
TAXES	annual EUR m	125	200	25
SALARY LEVEL	Gross annual salary all taxes included, EUR VS average salary	41,600 x1.9	37,000 x1.8	31,000 x1.7
INVESTMENTS	annual EUR m	928	436	220

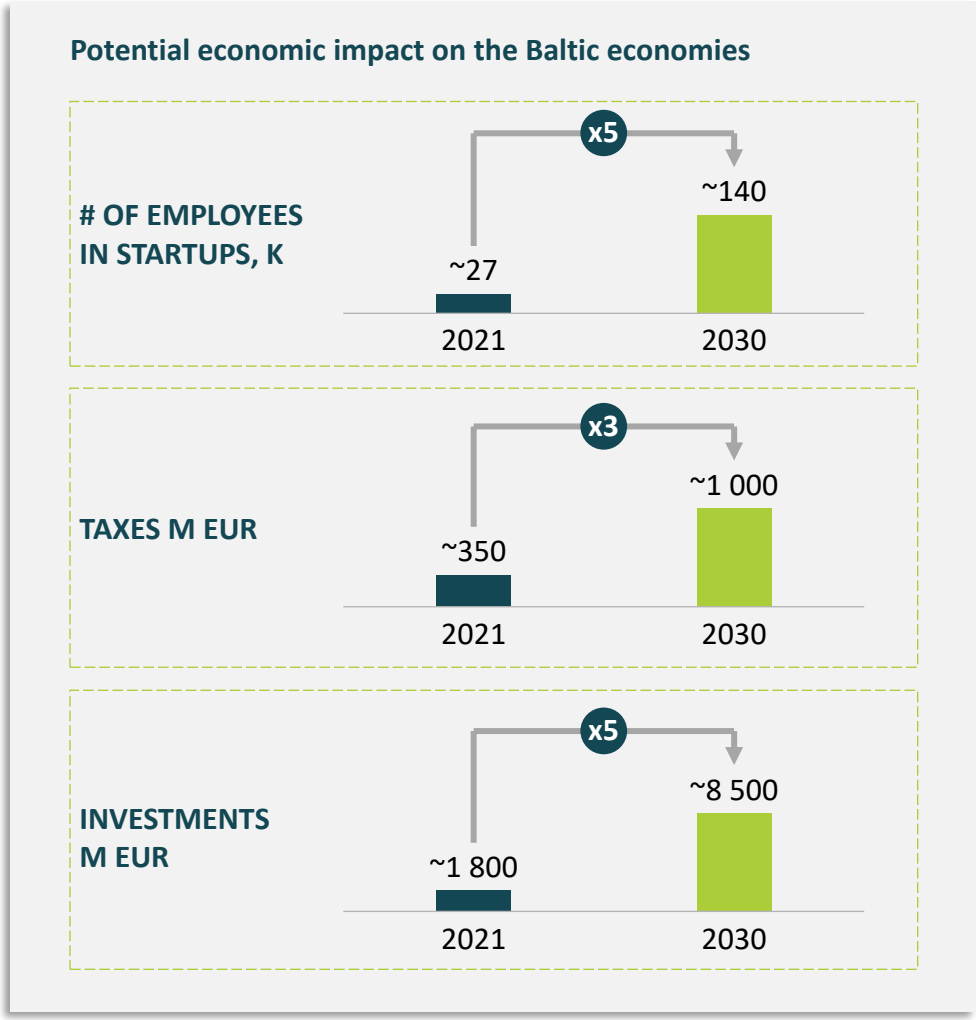
Source: Startup Estonia; Unicorns LT; CIVITTA analysis based on the dataset retrieved from Orbis; CIVITTA analysis based on the dataset retrieved from Dealroom; Investment and Development Agency of Latvia

*Data as of 2020

REACHING ISRAEL LEVEL TODAY WOULD MEAN 5+ TIMES HIGHER ECONOMIC IMPACT

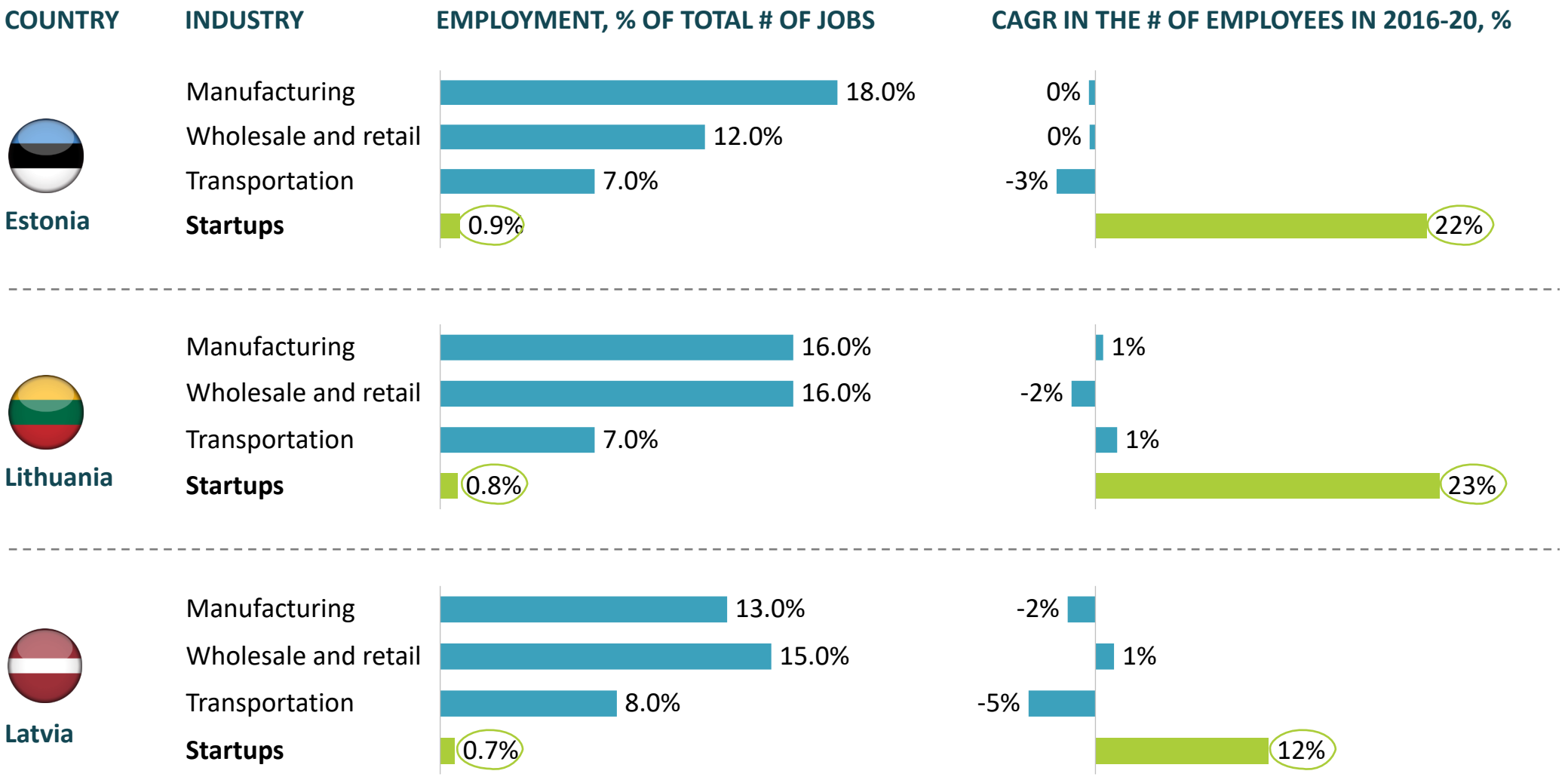
POTENTIAL GROWTH OF THE BALTICS STARTUP ECOSYSTEM





CIVITTA Source: CIVITTA calculations

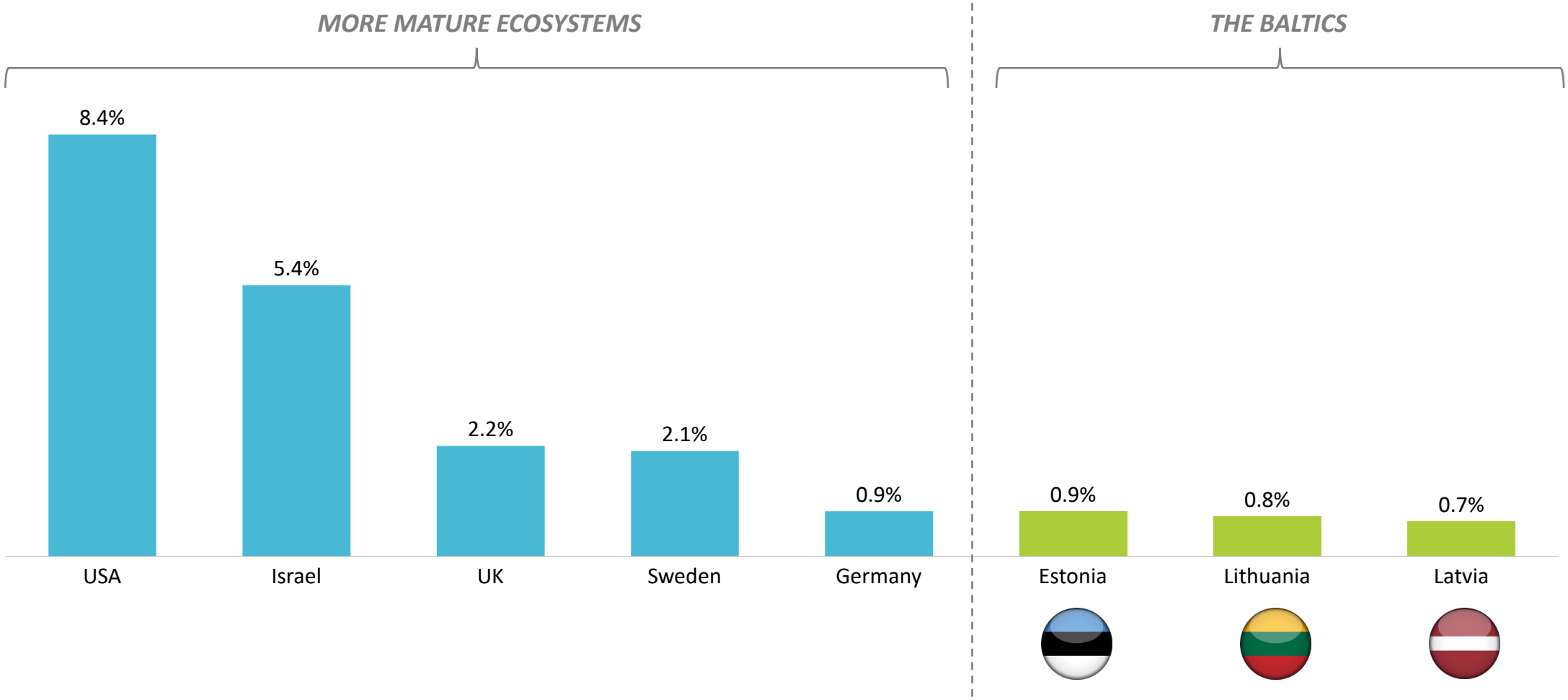
EMPLOYMENT IN STARTUPS IS GROWING AT DOUBLE-DIGIT RATES IN ALL COUNTRIES



Source: Startup Estonia; Unicorns LT; Investment and Development Agency of Latvia, Statistical departments in each country

THE BALTIC STARTUP POTENTIAL FOR EMPLOYMENT IS PARAMOUNT

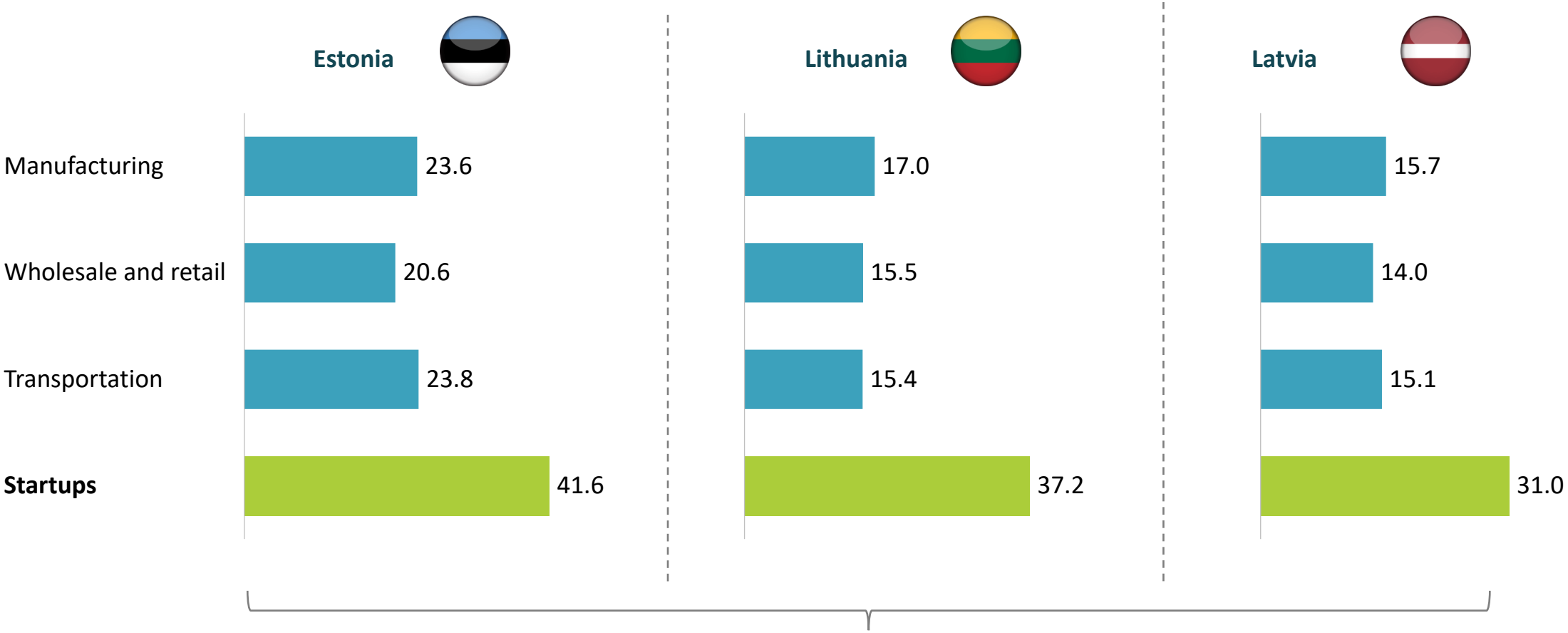
EMPLOYMENT IN STARTUPS AND TECH COMPANIES, % OF TOTAL JOBS IN THE COUNTRY, 2020



Source: Roland Berger Economic miracle 2.0, CIVITTA calculations

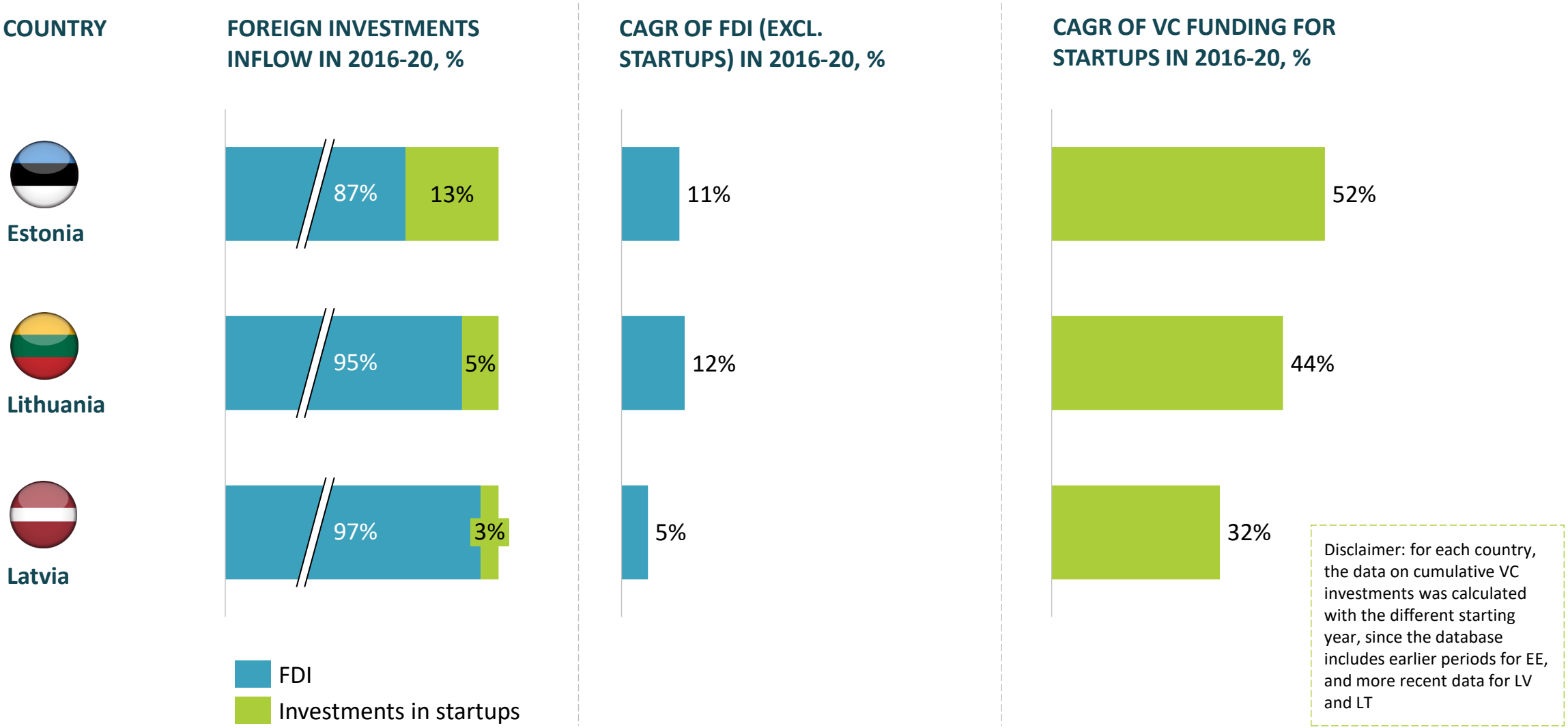
SALARIES IN STARTUPS TEND TO BE TWICE THE NATIONAL MEDIAN WAGE

GROSS ANNUAL SALARIES ALL TAXES INCLUDED, EUR K



Salaries in startups are **2x the national median wage** compared to **other key industries** in the economy

AVERAGE CAGR IN BALTIC STARTUP INVESTMENTS OVER THE PAST 5 YEARS WAS ~42%, WHILE TOTAL INVESTMENT GREW AT AN AVERAGE CAGR OF ~9%



Disclaimer: for each country, the data on cumulative VC investments was calculated with the different starting year, since the database includes earlier periods for EE, and more recent data for LV and LT

STARTUPS' GROWTH HELPS DRIVE ECONOMIC GROWTH AND SUSTAINABILITY GOALS ADVANCEMENT

STARTUP IMPACT

- **ECONOMIC IMPACT**
  - **Direct impact**
    - Revenue generation
    - Jobs creation
    - Taxes to state budgets
  - **Indirect impact**
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Startups are key accelerators to increase the scale and diffusion of solutions addressing **global challenges** and could be considered as an enabler for the implementation of the global **Sustainable Development Goals (SDGs)**

CIVITTA Source: CIVITTA methodology

SOCIAL AND ENVIRONMENTAL IMPACT: MANY BALTIC STARTUPS FOCUS ON WELL-BEING, CLEAN ENERGY, INDUSTRY INNOVATIONS, AND CLIMATE ACTION GOALS

NUMBER OF STARTUPS WHICH ACTIVITIES INCLUDE IMPLEMENTATION OF THE GLOBAL SUSTAINABLE DEVELOPMENT GOALS, 2020/2021

		ESTONIA	LATVIA	LITHUANIA
PRIMARY IMPACT	#1 No poverty	n.a	n.a	n.a
	#5 Gender equality	1%	n.a	n.a
	#8 Decent work and economic growth	5%	7%	3%
	#10 Reduced inequalities	2%	n.a	n.a
SECONDARY IMPACT	#2 Zero hunger	2%	3%	5%
	#3 Good Health and Well-being	11%	17%	16%
	#4 Quality Education	4%	7%	5%
	#6 Clean Water and Sanitation	n.a	n.a	5%
	#7 Affordable and Clean Energy	12%	7%	21%
	#9 Industry, Innovation and Infrastructure	11%	20%	21%
	#11 Sustainable Cities and Communities	11%	n.a	11%
	#12 Responsible Consumption and Production	9%	20%	3%
	#13 Climate Action	24%	13%	13%
	#14 Life Below Water	n.a	3%	n.a
	#15 Life on Land	5%	3%	n.a
TERTIARY IMPACT	#16 Peace and Justice Strong Institutions	1%	n.a	n.a
	#17 Partnerships to achieve the Goal	1%	n.a	n.a

THERE ARE BRIGHT PLAYERS IN THE BALTICS THAT FOLLOW SDGs AND HAVE AN IMPACT WITHIN THE EUROPEAN REGION

IMPACT OF COMPANIES ON SOCIAL AND ENVIRONMENT ASPECTS, 2020/2021

Impact of companies on social and environment aspects based on the size of the companies by of # employees

		ESTONIA	LATVIA	LITHUANIA
PRIMARY IMPACT	#1 No poverty	Minor-to-no impact	Minor-to-no impact	Minor-to-no impact
	#5 Gender equality		Minor-to-no impact	Minor-to-no impact
	#8 Decent work and economic growth			
	#10 Reduced inequalities		Minor-to-no impact	Minor-to-no impact
SECONDARY IMPACT	#2 Zero hunger			
	#3 Good Health and Well-being			
	#4 Quality Education			
	#6 Clean Water and Sanitation	Minor-to-no impact	Minor-to-no impact	
	#7 Affordable and Clean Energy	2.1 SKELE+ON TECHNOLOGIES	2.2 mintos	
	#9 Industry, Innovation and Infrastructure			
	#11 Sustainable Cities and Communities		Minor-to-no impact	2.3 Vinted
	#12 Responsible Consumption and Production			
	#13 Climate Action			
	#14 Life Below Water	Minor-to-no impact		Minor-to-no impact
	#15 Life on Land			Minor-to-no impact
TERTIARY IMPACT	#16 Peace and Justice Strong Institutions		Minor-to-no impact	Minor-to-no impact
	#17 Partnerships to achieve the Goal		Minor-to-no impact	Minor-to-no impact

CASE STUDY: SKELETON TECHNOLOGIES – ONE OF THE LARGEST EUROPEAN CLEANTECH MANUFACTURERS OF ULTRACAPACITOR-BASED ENERGY STORAGE

PROFILE

Main activity | development and manufacturing of ultracapacitors

Launch date | 2009

Company valuation | 201 m EUR*

Locations | Tallinn, Estonia (R&D and pilot production), Großröhrsdorf, Germany (manufacturing), Berlin, Germany (sales)

COMPANY HIGHLIGHTS WITHIN SOCIAL AND ENVIRONMENTAL IMPACT

IMPACT THEMES	SDG	DETAILS
AFFORDABLE AND CLEAN ENERGY	7 AFFORDABLE AND CLEAN ENERGY	• Delivering of reliable and long-life storage solutions through the use of patented 'curved graphene', thus helping companies to save energy and reduce CO_2 emissions
CLIMATE ACTION	13 CLIMATE ACTION	
JOB CREATION	1 NO POVERTY	• Creating high impact job opportunities in the region
INNOVATION & INFRASTRUCTURE	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	• Local Innovation to regional problems

Recognition | Skeleton Technologies' inclusion in **2020 Global Cleantech 100 list** is a result of actions aimed at helping companies to save energy and reduce CO_2 emissions

Clients | The company has signed a contract with Medcom in Poland – **leading innovator in the electric traction market.** Company's ultracapacitor systems help trams save energy by recuperating braking energy and reusing it for acceleration, **thus decreasing the total energy consumption significantly**

Source: company's website, news articles *Dealroom.co estimation Jun 2021

CASE STUDY: MINTOS – A GLOBAL MARKETPLACE FOR INVESTING IN LOANS, WHERE RETAIL INVESTORS CAN INVEST IN DIVERSIFIED WAYS

PROFILE

Main activity | a peer-to-peer lending marketplace for consumers seeking affordable loans and investors looking for attractive returns

Launch date | 2014

Company valuation | 75 m USD*

Locations | Riga Vidzeme (HQ)

mintos

COMPANY HIGHLIGHTS WITHIN SOCIAL AND ENVIRONMENTAL IMPACT

IMPACT THEMES	SDG	DETAILS
INNOVATION & INFRASTRUCTURE	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	• Innovation technology solutions
JOB CREATION	1 NO POVERTY	• Creating high impact job opportunities in the region

Employees | Mintos is an **equal opportunity employer** and an environmentally friendly community, running its operations by following the responsibilities stipulated in the Mintos Environmental policy

Innovation | Nasdaq CSD SE, a regional central securities depository in the Baltics and Iceland, in collaboration with Mintos, have developed a **technological solution** for automated International Securities Identification Numbers (ISIN codes) issuance. The new service is the first of its kind in the Baltic region, and among the first in Europe

CIVITTA Source: company's website, Nasdaqcsd web-site *Dealroom.co estimation Nov 2020

CASE STUDY: VINTED OFFERS AN ENVIRONMENTALLY CONSCIOUS WAY OF CONSUMING BY PROVIDING MORE SUSTAINABLE AND COST-EFFECTIVE SHOPPING

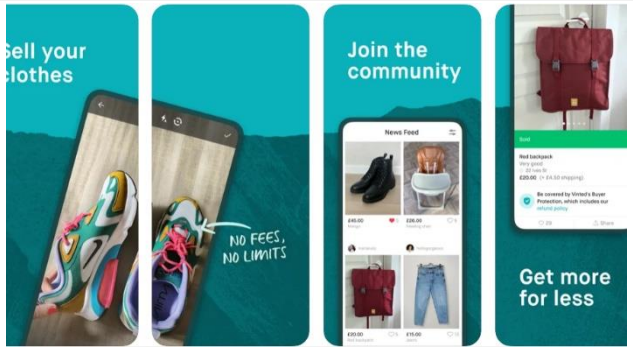
PROFILE

Main activity | online marketplace for buying, selling and exchanging new or secondhand items, mainly clothing and accessories

Launch date | 2008

Company valuation | 3.6 bn EUR*

Locations | Vilnius, Lithuania (headquarters) + 15 countries served



Vinted

COMPANY HIGHLIGHTS WITHIN SOCIAL AND ENVIRONMENTAL IMPACT

IMPACT THEMES	SDG	DETAILS
RESPONSIBLE CONSUMPTION	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	• Largest C2C online marketplace dedicated to second-hand fashion. • This business model of circularity means that clothes that have already been produced can be moved from one customer to another, allowing customers to have access to clothes for longer, which directly **reduces the amount of clothes going to landfill**, while **reducing the need for additional production of fresh clothing**
JOB CREATION	1 NO POVERTY	• Creating job opportunities in the region

Importance of the concept | The fashion industry emits about 10% of global carbon emission and produces nearly 20% of global wastewater. It is estimated that to grow one kilo of cotton requires around 10,000 liters of water.
In comparison, that produces only **one pair of jeans,** and **it takes one person to consume such an amount of water in a decade.**

CIVITTA Source: company's website, news articles, United Nations Economic Commission for Europe *Dealroom.co estimation May 2021

Agenda

1. Startups in the Baltics
2. **Ecosystem health check**
3. Policies & regulations
4. Interviews & survey results
5. Recommendations
6. Methodology Note

BENCHMARKING: TO COMPARE DIFFERENT COUNTRIES, WE ANALYSED VARIOUS INDICATORS DIRECTLY OR INDIRECTLY AFFECTING THE DEVELOPMENT OF STARTUP ECOSYSTEMS

The ranking compares countries' ecosystems based on the following fields and indicators:

1. GENERAL STARTUP PERFORMANCE

- **Cumulative number of unicorns**
- **Number of startups per 1M inhabitants**

2. OPPORTUNITIES FOR THE ECOSYSTEM DEVELOPMENT

- **Total Venture capital investments per capita**
- **Number of accelerators per 1M population**
- **Number of accelerators per 1000 startups**
- **Number of local investors per 1M population**
- **Number of local investors per 1000 startups**

The numbers include visible transactions and data from open sources and databases such as Crunchbase, Dealroom etc.

- **Cost of living** – a theoretical price index that measures relative cost of living over time or regions. The lower the value, the higher the country attractiveness

3. TALENTS

- **Student performance in mathematics** – measures the mathematical literacy of a 15-year-old to formulate, employ and interpret mathematics in a variety of contexts
- **Student performance in science** – measures the scientific literacy of a 15-year-old in the use of scientific knowledge to identify questions, acquire new knowledge, explain scientific phenomena
- **15 y.o. students expecting to work in ICT at age 30** –percentage of students who expect to work in the following science-related occupations when they are 30

According to PISA survey

- **Graduates from tertiary education graduating from Engineering, Manufacturing and Construction programmes**
- **Graduates from tertiary education graduating from Information and Communication Technologies programmes**
- **Researchers per 1000 total employment** – Number of professionals engaged in the conception or creation of new knowledge, products, processes, methods and systems, as well as in the management of these projects

According to the data of UNESCO Institute of Statistics

4. INNOVATIVE OUTPUT

- **ICT services export, % total trade**
- **High-tech net export, % of total trade**
- **Citable documents H-index**
- **Patents by origin/bn PPP$** – Number of international patent applications filed by residents at the Patent Cooperation Treaty
- **Intellectual Property Commercialization** – According to the data of Global IP Index

According to the data of Global Innovation Index ranking

BENCHMARKING: SINGAPORE AND ISRAEL ARE LEADERS IN THE DEVELOPMENT OF STARTUP ECOSYSTEMS, WHILE ESTONIA SHOWS BEST RESULTS AMONG BALTICS

STARTUPS ECOSYSTEMS COMPARISON RANKING

Leader | Above the median | Below the median

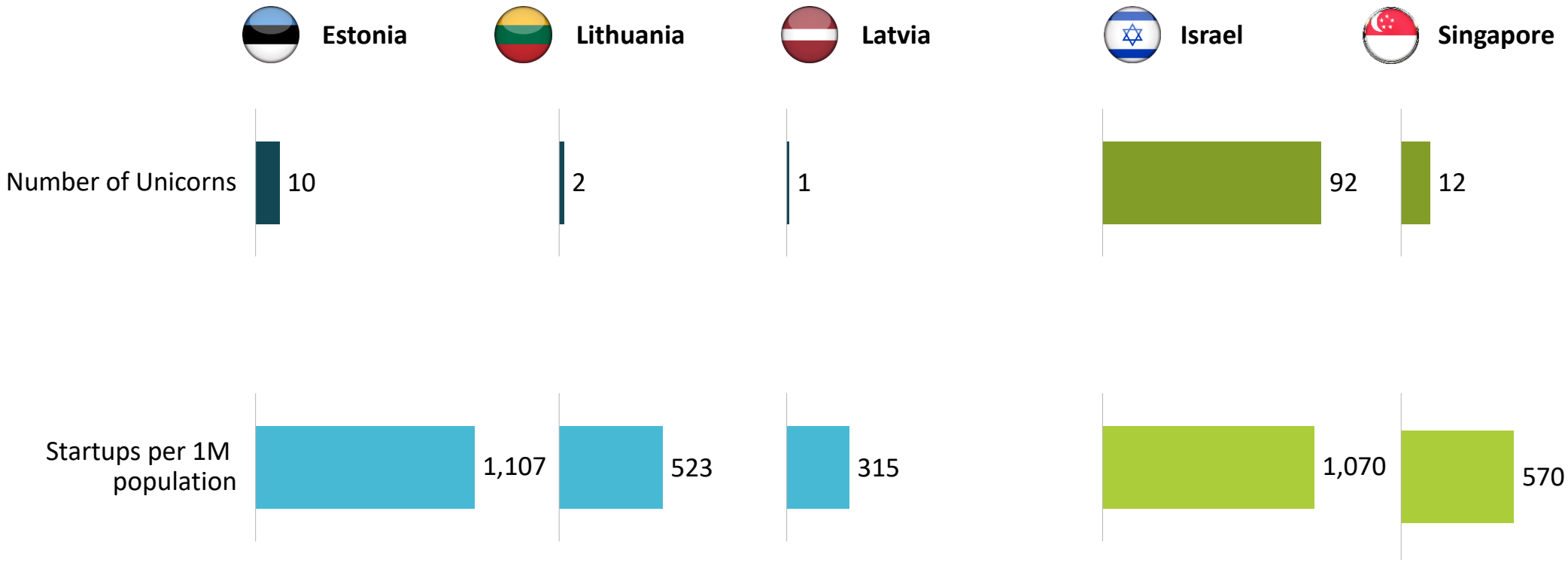
		Year	Units	Median value	EE	LT	LV	ISR	SGP	UK	CHE	DE	NL	FR	PL	SK
GENERAL STARTUPS' PERFORMANCE	Cumulative Number of unicorns	2021	#	10	10	2	1	92	12	41	5	27	5	25	10	0
	Number of startups per 1M inhabitants	2021	#	569	1107	523	315	1070	650	615	625	236	621	318	90	102
OPPORTUNITIES FOR THE ECOSYSTEM DEVELOPMENT	Total VC per capita	2021	EUR	265	840	160	116	1190	1398	432	381	197	333	152	7	29
	Number of accelerators per 1M population	2020	#	3	11	7	1	48	36	5	5	2	4	2	0	1
	Number of accelerators per 1000 startups	2020	#	9	12	12	4	43	53	12	12	7	8	9	3	7
	Number of local investors per 1M population	2021	#	38	112	37	27	292	149	96	114	32	95	39	9	6
	Number of local investors per 1000 startups	2021	#	108	115	69	94	265	218	237	272	88	187	154	101	76
	Cost of living	2021	score	71	56	71	48	42	132	71	48	79	86	87	49	56
TALENTS	Student performance in mathematics	2018	score	501	523	481	496	463	569	502	515	500	519	495	516	486
	Student performance in science	2018	score	494	530	482	487	462	551	505	495	503	503	493	511	464
	15 y.o. students expecting to work in ICT at age 30	2018	%	4%	10%	10%	7%	6%	4%	4%	2%	4%	4%	3%	10%	5%
	Graduates from Eng., Manuf. and Constr.	2019	%	14%	14%	19%	13%	n.a.	21%	9%	16%	24%	9%	14%	14%	12%
	Graduates from ICT	2019	%	4%	8%	4%	4%	n.a.	9%	4%	3%	5%	3%	4%	4%	4%
	Researchers per 1000 total employment	2018	#	7	7	6	4	n.a.	6	9	n.a.	10	11	11	7	6
INNOVATIVE OUTPUT	ICT services export, % total trade	2020	%	3%	5%	2%	5%	15%	3%	3%	3%	3%	4%	2%	3%	2%
	High-tech net export, % of total trade	2020	%	8%	8%	6%	7%	11%	25%	9%	7%	12%	11%	13%	7%	8%
	IP Commercialization	2021	%	91%	n.a.	n.a.	n.a.	96%	92%	94%	86%	92%	90%	91%	79%	n/a
	Citable documents H-index	2020	score	37	17	13	10	47	38	100	66	87	69	79	37	17
	Patents by origin/bn PPP$	2020	bn PPP$	3	1	0	2	4	3	6	16	16	9	8	3	1

Focus of the analysis

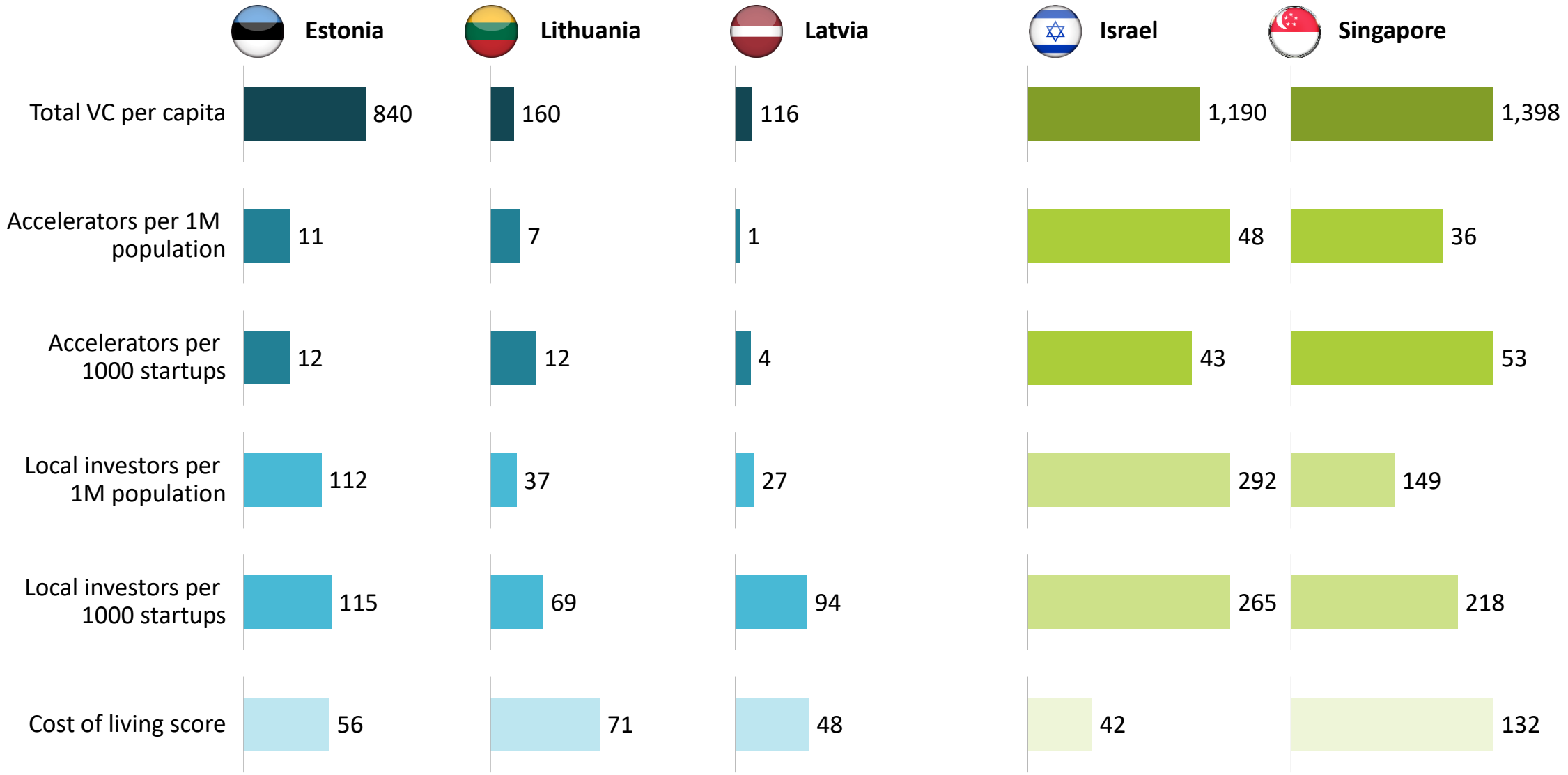
General ecosystem development level

Source: CIVITTA analysis

\ BENCHMARKING: ISRAEL IS THE MOST DEVELOPED STARTUP ECOSYSTEM

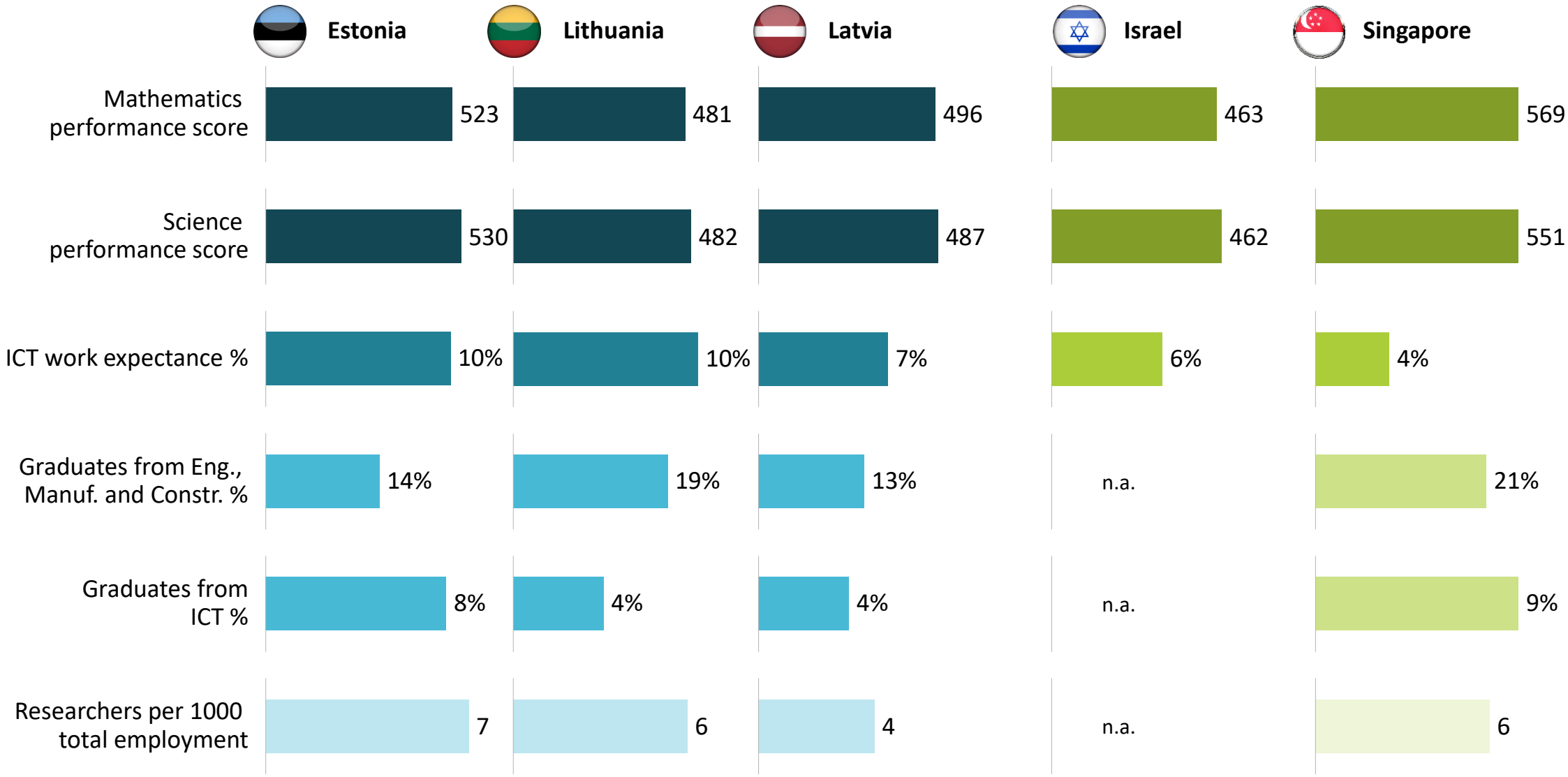


BENCHMARKING: ESTONIA IS CLOSEST TO ISRAEL AND SINGAPORE IN OPPORTUNITIES FOR ECOSYSTEM DEVELOPMENT



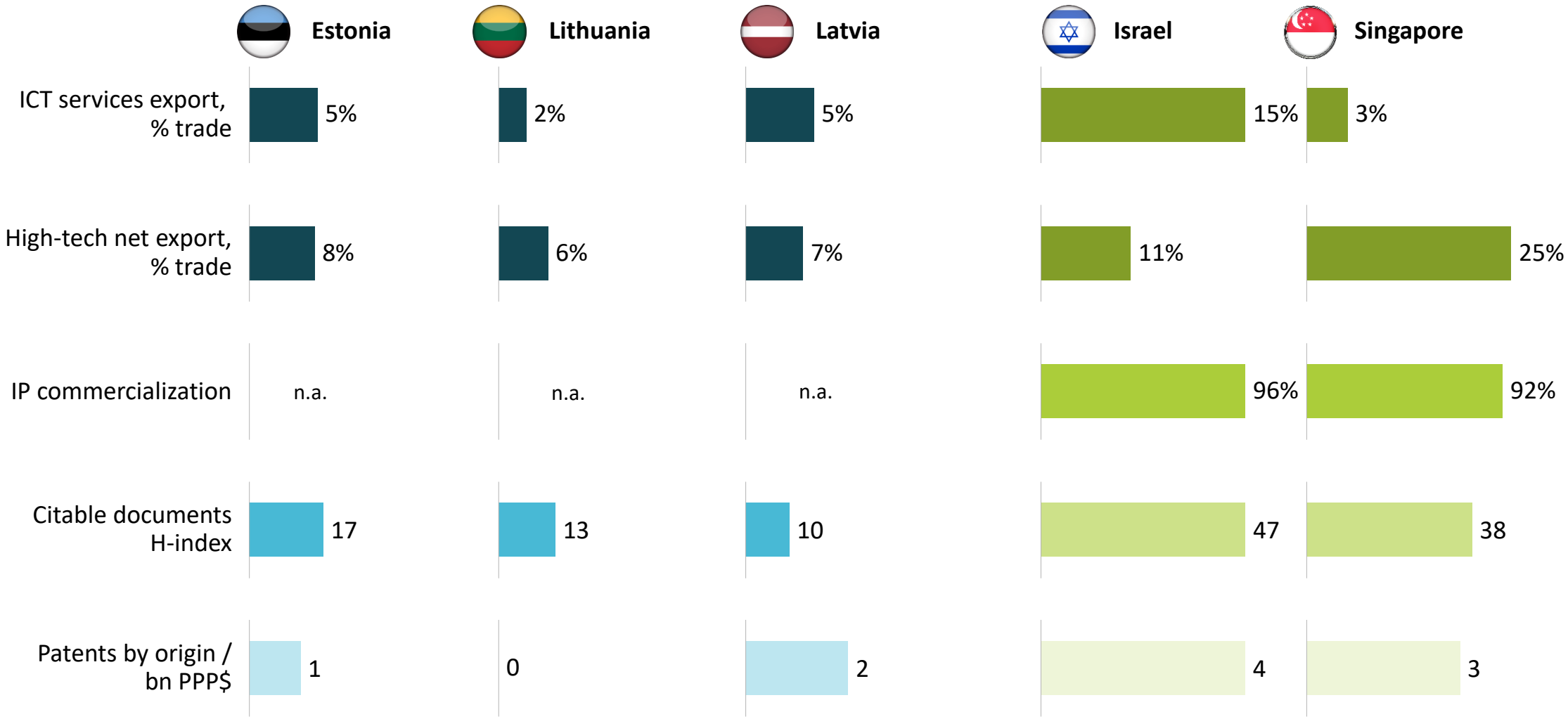
Source: CIVITTA analysis

\ BENCHMARKING: BALTIC ECOSYSTEMS ARE NOT LAGGING BEHIND MORE DEVELOPED ONES IN MATHEMATICS AND SCIENCE PERFORMANCE



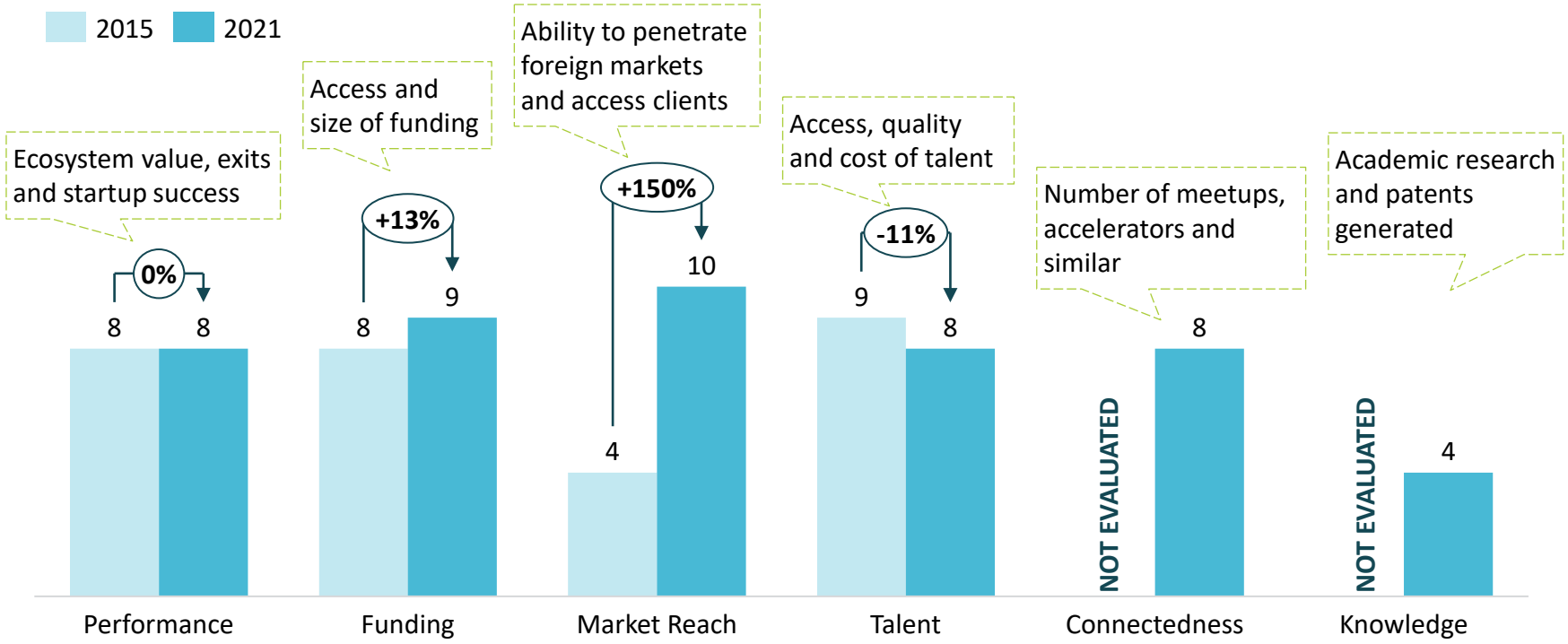
CIVITTA Source: CIVITTA analysis

BENCHMARKING: HOWEVER, LOOKING AT INNOVATIVE OUTPUT, MORE DEVELOPED STARTUPS ARE AHEAD OF THE BALTICS



CASE STUDY: PLENTIFUL TALENT AND CONNECTEDNESS IN TEL AVIV WERE THE KEY PREREQUISITES FOR SUCCESSFUL STARTUP ECOSYSTEM MATURITY

TEL AVIV STARTUP ECOSYSTEM SUCCESS FACTOR MEASUREMENTS, 2015 AND 2021



METHODOLOGY NOTE

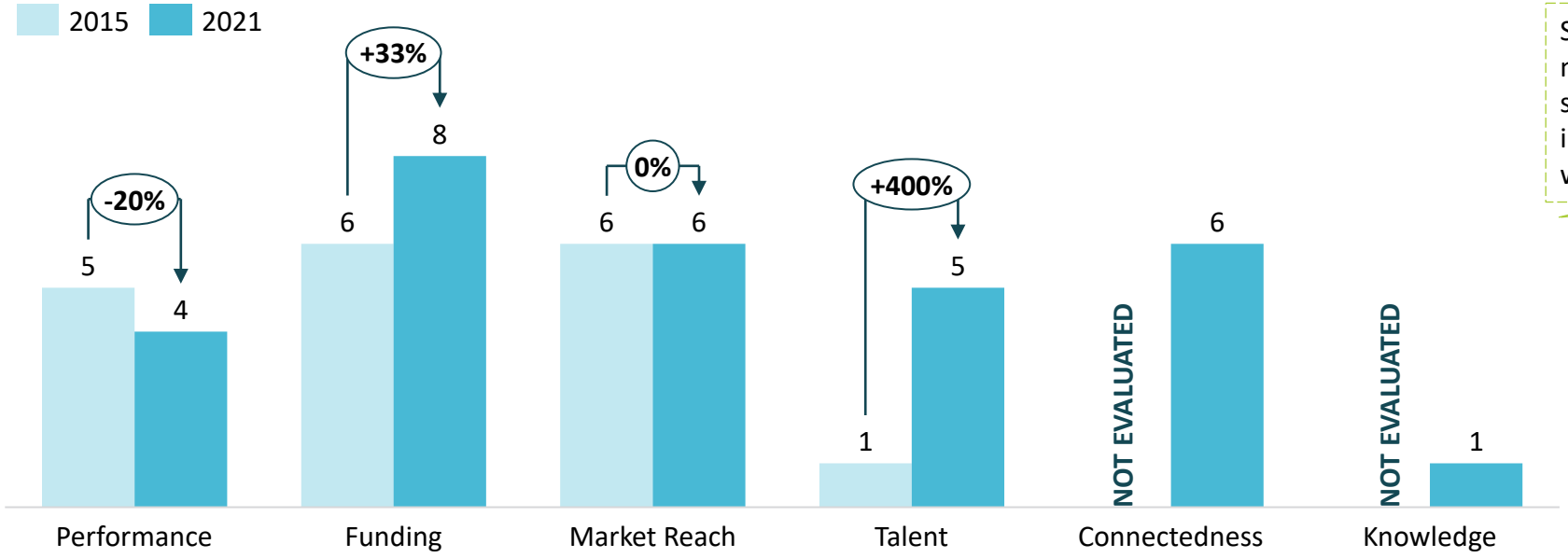
- Although methodologies used in the reports differ, they both aim to measure similar metrics
- 2021 report has more comprehensive and detailed methodology than earlier reports
- Factor measurements are done relative to other ecosystems. i.e., if the particular factor score did not change from 2015 to 2021, it means the factor remained in the same competitive positioning relative to others

INSIGHTS

- High increase in market reach score indicated **tremendous internationalization growth** and **maturity of the ecosystem**
- Tel Aviv startup ecosystem has high connectedness score as it hosts such notable events as Axis Tel Aviv, DLD, Fintech Week and similar, which **allow global entrepreneurs to network with leading members of the international startup scene**
- Tel Aviv ecosystem's **high funding success score is a result of successful maturity of the ecosystem**, namely, the presence and knowledge of promising companies and experienced entrepreneurs

CASE STUDY: TREMENDOUS GOVERNMENT SUPPORT AND ACCESS TO FUNDING WERE KEY FOR SINGAPORE'S STARTUP ECOSYSTEM MATURITY

SINGAPORE STARTUP ECOSYSTEM SUCCESS FACTOR MEASUREMENTS, 2015 AND 2021



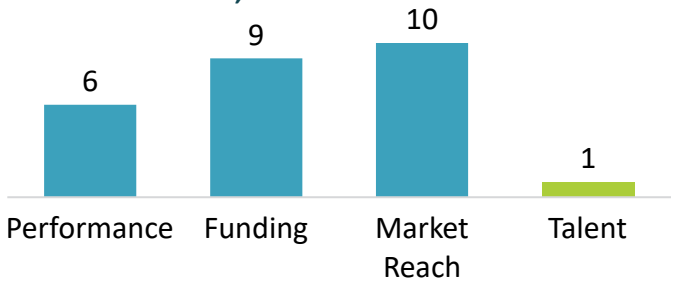
Slight decrease in performance metric indicates that there are startup ecosystems that grew faster in 2015-2021; it does not indicate worse performance per se

INSIGHTS

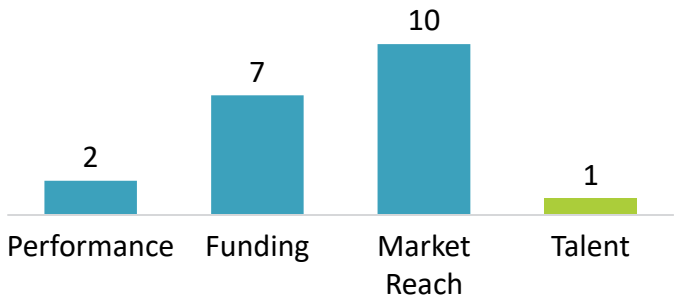
- In 2021, Singapore performed well in the quality, activity and access of funding for startups. Similarly, the talent score increased significantly in 2015-2021. Both increases happened mainly due to **high government participation and support**
- 2015 report highlights **that Singapore policies are very successful, especially in the beginning stages** of an ecosystem's formation (i.e., high government funding, startup programs and communities supported by the government, tax breaks, etc.)
- 2021 report suggests that Singapore has one of the **most aggressive local ecosystem development policies**. For instance, in 2020, the government set aside 300 M USD to invest in Deep Tech, eased market entry, streamlined processes for starting and closing businesses, made flexible termination and severance policies and creative non-cash compensation schemes

CASE STUDY: LACK OF TALENT IS THE KEY AREA AUTHORITIES AND ORGANIZATIONS SHOULD FOCUS ON IN THE BALTICS

ESTONIAN STARTUP ECOSYSTEM SUCCESS FACTOR MEASUREMENTS, 2021



LITHUANIAN STARTUP ECOSYSTEM SUCCESS FACTOR MEASUREMENTS, 2021



LATVIAN STARTUP ECOSYSTEM SUCCESS FACTOR MEASUREMENTS, 2021

Unavailable due to small size of the ecosystem, low performance and small significance on the international startup arena

PERFORMANCE

- Estonia is ranked 6th and Lithuania is ranked 21-30 emerging ecosystem in the world
- Currently, the performance is rather low. However, this is typical for an emerging ecosystem. As the ecosystem moves to its maturity, the higher performance is expected

FUNDING

- Estonia is evaluated higher than Lithuania in terms of funding. The reason could be that Estonia is already at its 3rd investment cycle, while Lithuania is at its 2nd. Lithuanian funding access and quality is expected to catch up with Estonia once it reaches 3rd investment cycle

MARKET REACH

- Both Estonia and Lithuania have the highest score for early-stage startup access to customers that allows them to scale and go global. Small local market is the prerequisite that forces Baltic startups to target international markets from early stages

TALENT

- Lack of talent is the main weakness for Baltic startup ecosystem. Therefore, sufficient talent is key for further development of the startup ecosystem
- There are various ways to overcome talent shortage:
  - Government support to increase local talent (e.g., in Singapore, the state heavily invests in STEM education, development of incubators and accelerators)
  - Development of favourable policies to attract foreign talent (e.g., the inflow of refugees in Tel Aviv from the former Soviet Union conditioned enough talent for startups)
  - Upskilling and reskilling in-house talent
  - Providing more favourable benefits (e.g., stock options, flexible workplace policy etc.)

Agenda

1. Startups in the Baltics
2. Ecosystem health check
3. **Policies & regulations**
   - **National and EU areas' split**
   - National-level policies & regulations
   - EU-level developments
4. Interviews & survey results
5. Recommendations
6. Methodology Note

EU-LEVEL LEGISLATIVE POWER IS SIGNIFICANT

LEGISLATIVE POWER SPLIT IN THE EU AND ON THE NATIONAL LEVEL

Member countries can pass laws if the EU decides not to

1 Only the EU can legislate

- **Customs union**
- **Competition rules** – for single market
- Monetary policy – for the eurozone countries
- **Trade and international agreements** (not all)
- Marine plans and animals regulated by the common fisheries policy

2 Both EU and member countries can pass laws (EU has priority)

- **Single market (both physical and digital)**
- **Employment and social affairs** (i.e., health and safety at work, pensions for those who worked in several EU countries or social security)
- **Economic, social and territorial cohesion**
- Agriculture
- Fisheries
- **Migration and home affairs**
- Research and space
- Environment
- **Consumer protection**
- Transport
- Trans-European networks
- Energy
- Justice and fundamental rights
- Public health (specific aspects)
- Development cooperation

More responsibility lies with national governments

3 Under national government legislation

- **Taxes** (unless it affects competition, free flow of goods, services, and capital or taxes discriminate against consumers, workers or businesses from other EU countries)
- **Civil protection**
- Public health
- Industry
- Culture
- Tourism
- **Education and training**, youth and sport
- Administrative cooperation

EU can only coordinate and complement actions

EU has the power to significantly affect the startup environment

Agenda

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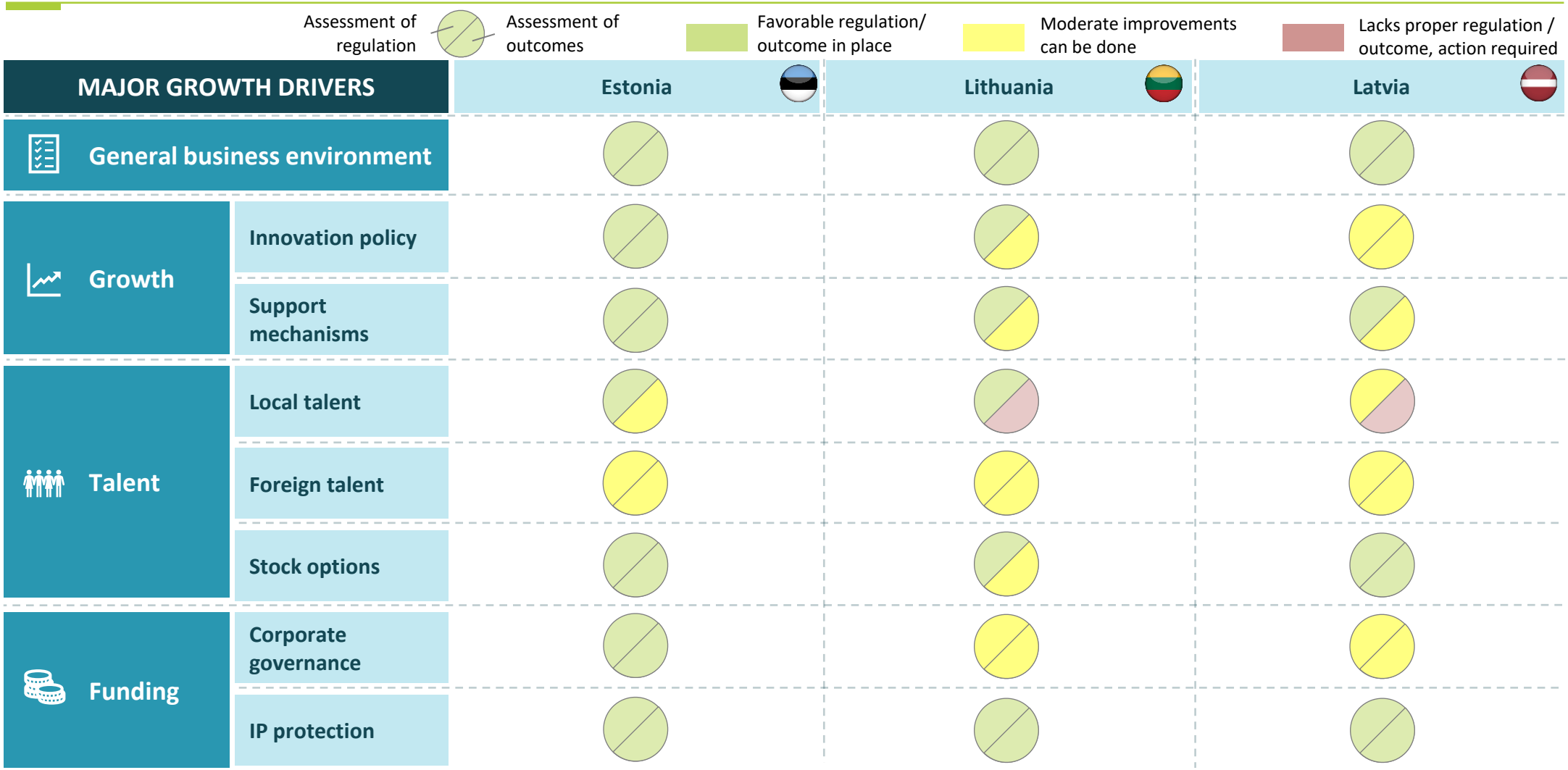
WE ANALYZED POLICIES & REGULATIONS AT THE NATIONAL LEVEL THROUGH TWO MAJOR DIMENSIONS

APPROACH TO POLICIES AND REGULATIONS ASSESSMENT

Source: CIVITTA methodology

THE BALTIC POLICIES AND REGULATIONS ARE GENERALLY FAVORABLE FOR STARTUPS

POLICIES AND REGULATIONS IMPACT ON MAJOR GROWTH DRIVERS FOR STARTUPS, REGULATION VS OUTCOME



Source: CIVITTA analysis, interviews with ecosystem players

\ COUNTRY OVERVIEW: ESTONIA HAS OVERALL FAVORABLE REGULATION, THOUGH CERTAIN IMPROVEMENTS ARE STILL POSSIBLE (1/2)

Favorable regulation/outcome in place | Moderate improvements can be done | Lacks proper regulation/outcome, action required

MAJOR GROWTH DRIVERS		CURRENT REGULATION	COMMENTS	CURRENT OUTCOME	COMMENTS
Growth	Innovation policy		• Government policies and long-term strategies prioritize supporting innovation and entrepreneurship and recognize the important role of startups in the transition towards innovative digital and green economy • A development plan is in place to support Estonian research, innovation and entrepreneurship for 2021 to 2035 • In recent years, the government has initiated innovation research in the fields of entrepreneurship, public sector services, digitalization of industries, energy efficiency and renewable energy, transport and export and an RDI strategy was in place for 2014-2020		• Estonia has made notable progress in recent years in closing the gap that existed few years ago in supporting R&D activities and helping companies to cross "the death Valley", GD expenditure on R&D reached 1.8% in 2020 • In the following years, significant amount of funding will be directed into entrepreneurship and innovation programmes
	Support mechanisms		• Supporting startups is one of the priorities of the Estonian Government - in 2021 to 2024 EUR 6 m are directed into support activities for startups • Knowledge transfer programme is in place for 2022 to 2025 with support measures and state funding • Estonian taxation system is one of the most competitive (basic tax rates and indicators). No corporate income tax on retained and reinvested profits. Business income and small enterprises are taxed according to simplified rules (lower tax, less reporting)		• Government funded startup support organizations, like Startup Estonia and Enterprise Estonia, are playing an active and major role in the ecosystem • Tax system is particularly suitable for companies that are planning rapid international growth and this brings companies to grow in Estonia
Talent	Local talent		• High level of governmental support to higher education, vocational education and training for adults - obtaining education is fully state funded since 2012 • Special governmental focus on smart specialization growth areas, IT education, engineering and PhD level research, highlighted in the development plan for 2021 to 2035		• Number of new entrants into STEM field tertiary education is high • Government supported sector specific education programmes are being developed like kood/Jõhvi coding school • However, ecosystem is still highlighting talent shortage as the largest challenge now and for coming years
	Foreign talent		• Support mechanisms are in place for attracting foreign talent, like e-Residency and startup visas; however, long term infrastructure for talents to stay in Estonia needs to be more accessible (e.g., healthcare, education for kids, inclusive culture, opening bank accounts). • Further improvement can be done with the launch of scaleup visa support – to attract talents for mature players		• There is a significant lack of talent in the startup sector – mainly in software development and sales • It is especially difficult to attract and keep senior level specialists due to the difficulties specialist's families are experiencing in settling in Estonia

Source: CIVITTA analysis, interviews, OECD, Eurostat, Ministry of Economic Affairs and Communication, State Budget 2021, Tax Competitiveness Index

\ COUNTRY OVERVIEW: ESTONIA HAS OVERALL FAVORABLE REGULATION, THOUGH CERTAIN IMPROVEMENTS ARE STILL POSSIBLE (2/2)

Favorable regulation/outcome in place | Moderate improvements can be done | Lacks proper regulation/outcome, action required

MAJOR GROWTH DRIVERS		CURRENT REGULATION	COMMENTS	CURRENT OUTCOME	COMMENTS
Talent	Stock options		• Regulations regarding stock options are flexible and issuance of options is not taxed (Income Tax Act) • Some minor technical challenges related to the issuance process are being solved already and changes to regulations are being implemented		• The government, together with Estonian Startup community representatives, is reviewing technical challenges related to the issuance process and are making corrections for easier implementation
Funding	Corporate governance		• Strategic focus for 2022 to 2035 is to maintain the stability of financial market, protect the interests of customers and investors, and support the development of technologically innovative business models • Estonian Corporate Governance is guided by the set of good practices - Estonian Corporate Governance Code and investment market entities are supervised by the Estonian Financial Supervision Authority		• According to investors, the framework is not too over-regulated and is favorable for attracting investments to Estonian startup sector • Startups have not experienced major regulatory barriers when attracting investments
	IP protection		• IP regulations are in place that cover trademarks, patents and utility models and industrial designs. Legislation invloves Copyright Act , Industrial Design Protection Act and the EU directive of intellectual property • Free governmental support is provided for enterprises to navigate the regulations and help with protecting company's IP		• The biggest IP creators (universities and innovative startups) are relatively active in protecting their IP • Similarly, to the TOP5 IP protector countries in the world, most active fields in Estonia are computer technology, digital communication and electrical machinery and apparatus.

Source: CIVITTA analysis, interviews, OECD, Eurostat, Ministry of Economic Affairs and Communication, State Budget 2021, Tax Competitiveness Index

AREAS FOR IMPROVEMENT: FURTHER IMPROVEMENT CAN BE DONE IN FOREIGN TALENT ATTRACTION

KEY AREAS FOR IMPROVEMENT IN REGULATION

AREA	CURRENT STATUS	PLANNED INITIATIVES / CURRENT DEVELOPMENTS
Foreign Talent	▪ The supply of skilled labor and talent is low compared to the demand of the startup sector - this is due to the small size of Estonia. Therefore, access to foreign talent is essential for Estonian startup ecosystem, especially for scaling up ▪ Support mechanisms are in place for attracting foreign talent, like e-Residency and Startup visas; however, further improvement can be done with the launch of 'scaleup visa' support – to attract talents for mature players	▪ Discussions are being held regarding the scale up visa, which would allow more mature companies to hire foreign talent

Source: CIVITTA analysis, interviews

COUNTRY OVERVIEW: LITHUANIA HAS ROOM FOR IMPROVEMENT IN CORPORATE GOVERNANCE REGULATIONS (1/2)

Favorable regulation/outcome in place | Moderate improvements can be done | Lacks proper regulation/outcome, action required

MAJOR GROWTH DRIVERS		CURRENT REGULATION	COMMENTS	CURRENT OUTCOME	COMMENTS
Growth	Innovation policy		• Government policies and long-term strategies facilitate startup creation, initiatives, and funding		• The support is fragmented and bureaucratic – the government recognizes the issue with innovation reform approaching • Total investment into R&D (1% of GDP) is behind the previous goal of 1.9% and the EU avg. of 2.12%, while new planned goal is to reach 2.2% • Business expenditure on R&D (0.43% of GDP) is behind the EU avg. of 1.39% - an obstacle for Lithuanian development towards innovative economy found by OECD
	Support mechanisms		• There are at least 270m EUR allocated from local authorities for startup acceleration, research, and innovation • Innovation procurement is planned to become an important demand-side innovation policy tool; the target of 20% of total public procurement is at the top of the EU – however, OECD still outlines that an encompassing monitoring system and a single/clear access point for information are still required		• Current financing comes in waves, there is no continuity in state funding provisions – startup might launch when no/small amount of funding is available
Talent	Local talent		• National agenda 2030 to focus on science; reading comprehension, mathematics, and natural sciences in secondary education • Students choosing STEM degrees in universities are around 1.5-2 times more likely to study for free		• Critical shortage and mismatch of the education system and industry needs, changes made to Vocational edu. could help – OECD • In the past 6 years, there was around 30% reduction in students starting STEM degrees (number of engineers shrank by around a half, while the number of IT, natural sciences, and math students increased at first, now remain at a similar level). Overall, there was around 27% reduction in admitted university students
	Foreign talent		• Favorable migration policies are in place (startup visa, e-residency program (modeled after Estonia); also, changes in the overall migration procedures make it easier to stay in Lithuania longer and significantly reduce bureaucratic procedures • Further improvement can be done with the launch of 'scaleup visa' support – to attract talents for mature players		• There are around 7,000 foreign students, only 7% remain to work In Lithuania, while in other EU countries 20-30% remain • The total number of foreign workers increased 3 times since 2014, to 118k, but the number of high-skilled foreign workers increased only by around 9% (from 6.9k to 7.5k)

Source: CIVITTA analysis, interviews, OECD

COUNTRY OVERVIEW: LITHUANIA HAS ROOM FOR IMPROVEMENT IN CORPORATE GOVERNANCE REGULATIONS (2/2)

Favorable regulation/outcome in place | Moderate improvements can be done | Lacks proper regulation/outcome, action required

MAJOR GROWTH DRIVERS		CURRENT REGULATION	COMMENTS	CURRENT OUTCOME	COMMENTS
Talent	Stock options		• Amended stock options act (passed in 2020) regulates that stock options are no longer taxed as personal income, effectively reducing the tax rate		• Due to lack of experience and practice, there is confusion within the tax authorities on how to implement the regulation
Funding	Corporate governance		• Lithuanian limited liability company act is outdated; based on the regulation, it is nearly impossible to have different stock classes • Lithuanian regulatory framework has limitations on convertible debt, preferred stock, and dividend policy • The Board of directors has less power than in western counterparties, while CEOs have more – principal-agency problems • The parliament agrees on the changes, but in September has returned the draft to the Ministry of Innovation to adjust. They adjusted on October 12th, so there should no be any big issues of accepting it this year		• Ecosystem players indicate the presence of challenges when working with foreign investors, though this still does not limit them from attracting money from abroad
	IP protection		• IP regulation is based on the EU regulation (directive 2004/48), Lithuania joined WIPO in 1992 and is member of multiple IP treaties. Currently, the regulation is being improved based on WIPO recommendations that suggest consolidating entities responsible for the IPs, increasing human resources and raising awareness to stakeholders		• Lithuanian court system has proven capable of enforcing the IP-related laws, by obliging service providers in Lithuania to ban access to the major piracy website

Source: CIVITTA analysis, interviews, OECD

AREAS FOR IMPROVEMENT: IN MOST AREAS FOR IMPROVEMENT, THERE HAVE ALREADY BEEN SOME ACTIONS TO IMPROVE THE STATUS QUO

KEY AREAS FOR IMPROVEMENT IN REGULATION

AREA	CURRENT STATUS	PLANNED INITIATIVES / CURRENT DEVELOPMENTS
Corporate governance	▪ Limited company act has remained largely the same since 2001 → there are limiters on stock classes, preference stock, repurchases, and dividends ▪ Board of directors has less power than in Western countries	▪ Adjustments to the corporate governance, especially Limited Liability act were confirmed by the Innovation Ministry and will be considered by the parliament probably this year
Stock options	▪ Amendment act, passed in 2020, has introduced significant tax reduction for stock options if held over 3-year period; however, there is still a lot of confusion among tax authorities on how to implement the regulation due to lack of previous experience and practice	▪ No formal planned initiatives ▪ Startup ecosystem associations are actively communicating with government to clarify the situation
Foreign talent	▪ Favorable migration policies are in place (startup visa, e-residency program (modeled after Estonia)) ▪ However, further improvement can be done with the launch of 'scaleup visa' support – to attract talents for mature players	▪ Lithuanian business association has initiated discussions with the government – changes planned to the "Alien act" that should reduce bureaucracy and increase the number of high-skilled foreign workers ▪ Draft of changes to the law to be submitted in 2022 Q2
Innovation policy	▪ Lithuania has relatively fragmented and bureaucratic institutional support for startups and funding applications ▪ Lithuania is below average in the EU in both public and private funding of research and development	▪ Innovation reform on the agenda of the government; however, no news or information on its status recently → lack of clarity what happens next among ecosystem players

Recently, the audit committee of the Lithuanian parliament has asked the government to review stock options regulation for SOEs due to "Ignitis" usage

\ COUNTRY OVERVIEW: LATVIA STATUS QUO IS SIMILAR TO LITHUANIA (1/2)

Favorable regulation/outcome in place | Moderate improvements can be done | Lacks proper regulation/outcome, action required

MAJOR GROWTH DRIVERS		CURRENT REGULATION	COMMENTS	CURRENT OUTCOME	COMMENTS
Growth	Innovation policy		• National industrial policy guidelines and Science, technology development and innovation guidelines for 2021-2027 describe the general elements of the innovation policy on the strategic level. However, a clear Startup ecosystem development strategy within the key strategic documents leading to the development and growth of Scale-ups is missing		• R&D expenditure in Latvia is just 0.7% of GDP – significantly below the EU average of 2.3% of GDP. National development plan aims to increase this value to 1.5% by 2027 • Interviews with ecosystem players indicate that R&D is highly dependent on international funds, especially EU support measures
	Support mechanisms		• Recent amendments to the Startup Law have made state funding more accessible; various programs and mechanisms providing access to financial support, such as innovation vouchers ; 0% corporate tax for all enterprises if profits are reinvested, tax breaks and employee co-financing for startups		• Ecosystem interviews highlighted that public support measures are in place but are often de-motivating and result in startups not being able to raise money from private sector, grow and develop in the business world
Talent	Local talent		• 213m are to be invested in improving education accessibility, competitiveness of higher education and sciences, school & university modernization, but the overall higher education funding, as of now, is significantly lower than, e.g., in Estonia • Multiple vocational training initiatives in place		• Policies to attract more students to STEM programs are currently rather ineffective and cover very small part of the population (Ecosystem players'interview)
	Foreign talent		• Favorable migration policies exist (e-residency analogue, Startup Visa); however, startups have high requirements for visa to be prolonged, e.g., to receive funding during the first 12 months of operation visa cannot be applied for online, and it must be prolonged each year (max for 3 years)		• Increase of salaries and improved skills for local talent are more important compared to attracting of foreign talent • Startup interviews indicate that the process is still quite complicated
	Stock options		• Recent amendments have made it possible for LLCs to issue stock options, made stock options exempt from income tax (min. holding period reduced from 36 to 12 months), introduced a 6-month grace period when the options can be exercised after leaving the company that issues the options.		• Since the amendments are recent, no outcome from is visible yet; however, global benchmarks put stock regulations as the best example to follow

Source: CIVITTA analysis, interviews, OECD

\ COUNTRY OVERVIEW: LATVIA STATUS QUO IS SIMILAR TO LITHUANIA (2/2)

Favorable regulation/outcome in place | Moderate improvements can be done | Lacks proper regulation/outcome, action required

MAJOR GROWTH DRIVERS		CURRENT REGULATION	COMMENTS	CURRENT OUTCOME	COMMENTS
Funding	Corporate governance		• Overall favorable environment for investment attraction (e.g., startup funding in H2 of 2020 exceeded pre-pandemic levels); however, there are indications of difficulties with enforcing / realizing minority shareholder protections • Lack of transparency, outdated and overcomplicated procedural requirements for company internal processes		• Ecosystem players indicate the presence of challenges when working with foreign investors, though this still does not limit them from attracting money from abroad
	IP protection		• IP regulation is in place to cover trademarks, patents, utility models, industrial designs • Nordic-Baltic regional division of the Unified Patent Court established in 2018		• No issues observed

Source: CIVITTA analysis, interviews, OECD

AREAS FOR IMPROVEMENT: LATVIA CAN BENEFIT FROM REGULATORY IMPROVEMENTS IN CORPORATE GOVERNANCE, TALENT, AND INNOVATION STRATEGY

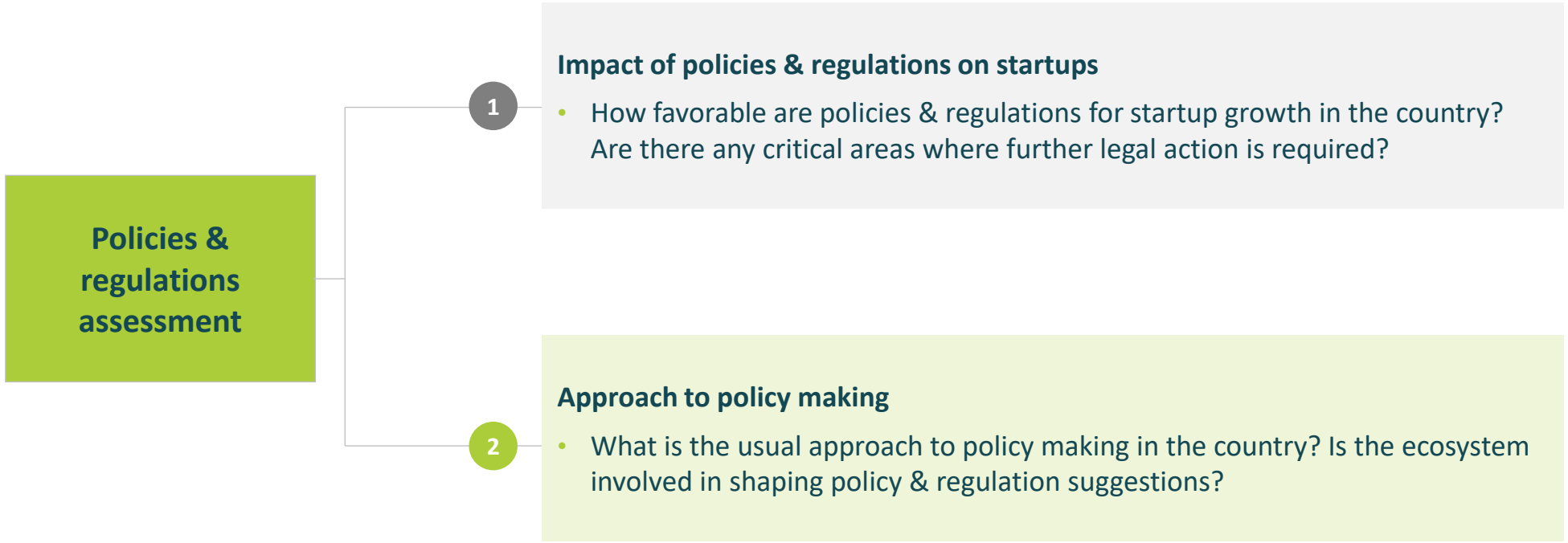
KEY AREAS FOR IMPROVEMENT IN REGULATION

AREA	CURRENT STATUS	PLANNED INITIATIVES / CURRENT DEVELOPMENTS
Corporate governance	▪ Overall favorable environment for attracting investment; however, there is a lack of enforcement safeguards for minority shareholders, limited ownership transparency, and outdated procedural requirements	▪ Government has conceptually supported the proposed amendments to the law that would improve transparency regarding company ownership and alleviate some bureaucratic burdens
Innovation policy	▪ Startup ecosystem lacking focused public strategy ▪ Latvia is below average in the EU in R&D funding and current KPIs would still not allow Latvia to catch up	▪ Policymakers, in collaboration with governmental and ecosystem organizations, had committed to developing a start-up ecosystem development strategy and action plan ▪ National development plan aims to increase the current R&D spend more than two times by 2027
Foreign talent	▪ Startup visa has several rigid requirements that limit its scope (e.g., limited only to 5 founders per company, must be renewed annually, cannot be completed online etc.) ▪ Further improvement can be done with the launch of 'scaleup visa' support	▪ Ecosystem interviews indicate that policy makers are more focused on producing high-skilled local workforce and increase in salaries for local workforce rather than attracting foreign labour for lower wages
Local talent	▪ Policies have been rather ineffective in attracting more students to STEM programs; overall local universities and their peers find it difficult to compete with other universities on the international rankings	▪ Universities engage students in innovation and business development programmes funded by ERDF grants. The sustainability of these programmes is in question after the funding ends ▪ RRF dedicated 30 M EUR for digital skills training of local talent

Source: CIVITTA analysis

WE ANALYZED POLICIES & REGULATIONS AT THE NATIONAL LEVEL THROUGH TWO MAJOR DIMENSIONS

APPROACH TO POLICIES AND REGULATIONS' ASSESSMENT



Source: CIVITTA methodology

IN ESTONIA, LITHUANIA AND THE EU, THERE IS ACTIVE DIALOGUE BETWEEN POLICY MAKERS AND ECOSYSTEM PLAYERS

APPROACH TO POLICY MAKING ACROSS COUNTRIES

	Estonia	Lithuania	Latvia	EU
Major policymaker	Ministry of Economic Affairs and Communications of the Republic of Estonia	Ministry of the Economy and Innovation of the Republic of Lithuania	Ministry of Economics of the Republic of Latvia	European Commission, European Parliament, Council of European Union
Government organizations	Estonian Business and Innovation Agency, Startup Estonia	Enterprise Lithuania, Startup Lithuania	Startup Latvia (Investment and Development Agency of Latvia)	n.a
Ecosystem organizations	Estonian Founders Society, EstBAN, and others	Unicorns.lt, Lithuanian PE and VC association, and others	Startin.LV, Latvian PE and VC association, and others	European Startup Network, European Startup Association, Startup Europe Partnership
Approach now	▪ Mixed approach – bottom-up and top-down ▪ The government is active in listening to ecosystem players (e.g., roundtables with ecosystem players and key high-ranking officials) and following up on their suggestions and concerns	▪ Mixed approach – bottom-up and top-down ▪ Lithuanian ecosystem is active in organizing themselves, providing inputs for the government to implement changes ▪ However, due to lack of resources, the government is slow to react	▪ Increasingly bottom-up ▪ All startups organizations in LV are non-profits ▪ Major policy achievements include: startup visa, startup law, stock option legislation ▪ The issues arise with follow-up actions and further implementation	▪ Mixed approach – bottom-up and top-down ▪ Baltic startups perceive EU regulation as too general to have major impact on the ecosystem ▪ Better coordination and synchronization of policies and sharing of best practices is needed among EU states to avoid duplication of initiatives

Source: CIVITTA analysis, interviews with ecosystem players

Agenda

1. Startups in the Baltics
2. Ecosystem health check
3. **Policies & regulations**
   - National and EU areas' split
   - National-level policies & regulations
   - **EU-level developments**
4. Interviews & survey results
5. Recommendations
6. Methodology Note

THE EU HAS STARTUP EUROPE INITIATIVE TO SUPPORT STARTUP GROWTH INSIDE ITS BOUNDARIES

STARTUP EUROPE INITIATIVE (aims to connect high tech startups, scaleups, investors, accelerators, corporate networks, universities and the media through a portfolio of funded projects and policy actions)

EU Startup Nations Standard (SNS)

- Introduced by the EU in 2021 with an immediate task to ensure dissemination of best practices found in the ecosystems around the world across all Member states
- Promotes the launch of a political initiative calling for commitments from EU countries to implement such practices at local, regional and national levels
- Focuses on easier startup launch and its expansion, visa and residency applications for third-country talents, stock options, venture building and transfer from universities, increased access to funding for scaling-up

Significant progress for EU-policy efforts as SNS initiative will have a permanent office to support its implementation

Innovation Radar Platform

- A data-driven initiative to identify high potential innovations and innovators in EU-funded research and innovation projects
- Allows every citizen, public official, professional and businessperson to discover the outputs of EU innovation funding

Digital innovation and scaleup initiative

- Digital innovation and scaleup initiative (DISC) – a geographically targeted way of reducing investment gap in CESEE region compared to other European regions, launched in 2019 by the European Commission in cooperation with several other international institutions

The EU also supports innovative SMEs with funding (e.g., H2020 SME Instrument); there are other projects too, associated with European Innovation Council and Investment Fund, that were dealing with funding applications before and continue to do so

Startup Europe for growth H2020 Projects

7 projects, funded under Horizon 2020, some of which are:

- B-HUB FOR EUROPE – deep tec, blockchain domain (Vilnius included)
- Scale-up Champions – scaling up opportunities (LT and EE included)
- X-Europe – linking Baltics and Visegrad to the rest of Europe
- Other include Scaleup4Europe, STARTUP3, INNODEC, MediaMotorEurope – focusing on innovation, breakthroughs, equalizing opportunities, and providing scale-up opportunities

Source: Startup Europe, 2021

\ MANY PLAYERS STILL HIGHLIGHT ISSUES, WITH FRAGMENTATION AS THE BIGGEST ONE

HIGHLIGHTED ISSUES IN EU POLICY MAKING

Some regulations both directly and indirectly affect startups that use Big Tech services (e.g., DSA and DMA)

Fixation

- European **regulators are mainly preoccupied** with legislation packages that have specific criteria (i.e., size, revenue), and usually only large or **U.S. Big Tech** companies fall under

  There are other regulations that are also aimed toward regulating the biggest technology companies but **new regulations affect every company operating in the field**
- Other regulations help standardize rules throughout member states, but bring compliance complexities and costs to businesses
- At the same time, local successful startup environment is growing at a rapid pace (experienced 3x funding growth), but **does not get enough attention**

Authority

- The Commission **does not have the power over Member States taxation, immigration procedures, or education policies**
- However, it has the power to guide the Member States and encourage them towards a specific direction
- Further, the EU can play a special role in coordinating economic and employment policies

Fragmentation

- **Lack of harmonization across the Continent** – startups have to comply with varying rules on key issues regarding immigration, stock options
- Startups are pushing, lobbying, and engaging with European policymakers to start making changes
- Time and effort spent on Big Tech or particular areas of regulation can be split and used to improve the situation for startups and address their worries (employee compensation, talent, compliance, and funding)

The EU has experienced rapid growth and many of those startups express regulatory ceilings, areas for improvement – time and effort could be spent on helping them

Key issue

CIVITTA Source: Politico, 2021

EU STARTUPS HAVE HIGHLIGHTED SEVERAL TOPICS TO BE ADDRESSED BY EU POLICY MAKERS

THE ACTION PLAN IN MAKING EUROPE A STARTUP POWERHOUSE (POLICY-RELATED TOPICS)

1 Tax incentives

- Classification of startups as a special investment category, **deduced investments in startups from capital gain taxes**
- The EC does not have such authority over Member States, but should help coordinate policy changes

2 Special Working Group

- A special group of policymakers has to be set up to **discuss implementation of startup-friendly policies** throughout the EU
- Develop a plan and policies for the EU Member States aimed at the startup ecosystems

3 Ending tax bias of debt over equity

- Debt is treated as a cost. It can be written off against revenue and serve as tax reduction
- Equity is treated as profit, thus, higher taxes
- The EC has to help coordinate policy changes that **neutralizes the decision of debt versus equity**
- Belgium, Italy and Luxembourg implemented 'notional interest deductions' for equity

4 Employee stock options

- Usually, individuals have to pay ordinary income tax on stock options (heavy tax)
- Stock options are useful tools for attracting talent and reward risk-taking
- Stock options **offered by startups should be taxed as capital gains**
- The EC has to help coordinate policy changes

5 Pan-European Startup Visa

- Lack of talent and brain drain are paramount problems in the EU
- Create single point of contact for interested founders
- Targeted campaign at bringing talent back, research grants and support

Changes are being planned/implemented in the EU agenda

6 Insolvency / Restart / Corporate Law

- Closing a company is more difficult than opening one due to weaknesses in corporate law
- Startups need "puppy protection" until certain thresholds are reached

Source: CIVITTA analysis, Action plan to make Europe the new Global Powerhouse for Startups, 2021

INCREASING NUMBER OF POLICIES AFFECTING STARTUPS ARE BEING DEVELOPED ON EU LEVEL

KEY POLICIES & REGULATIONS AT THE EU LEVEL

XXX – in force; *XXX – in progress as of now*

- Effect on Operational activities for all startups
- Effect on Operational activities for major groups of startups
- Facilitation without a direct effect

Digital services

- E-Commerce Directive (ECD)
- *Digital Services act (DSA)*
- *Digital markets act (DMA)*
- *EU Single Digital Gateway Regulation*
- Directive on Copyright in the Digital Single Market

Data

- GDPR
- Data Governance Act
- *Data Act*

Artificial Intelligence (AI)

- *AI act*

Consumer protection

- New Deal for Consumers package

IP protection

- Intellectual property action plan

Environment and transition

- EU Green Deal
- Fit for 55
- Circular Economy Action Plan
- European Industrial Strategy
- Industry 4.0
- CSRD

Source: CIVITTA analysis

Agenda

1. Startups in the Baltics
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3. Policies & regulations
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   - **Interviews**
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   - Startups survey
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INTERVIEWS SUMMARY: THE KEY ISSUES BALTIC STARTUPS FACE ARE LACK OF TALENT AND COOPERATION; THE BIGGEST STRENGTH IS POLICY INFLUENCE

Interviews

Startup Organizations

- Startup organizations in the Baltics don't have a clear and unified vision on Startup development
- People working in organizations have relatively low wages and often have an additional part-time job
- There is good cooperation between organizations in a single country, but little to no cooperation between Baltic countries

Startups

- Significant lack of talent (both technical and business) is a burning problem for Baltic startups
- There is a significant demand for stock options from employees, but not many startups are using them
- There is low number of local VCs that provide majority of funding for early-stage startups, leading to early-stage funding shortage
- Bootstrapping is becoming more popular among Baltic startups, even though there has been significant increase in funding
- Due to small size of the market, players can communicate and share experience easily, as well as influence government decisions
- There is significant interest of foreign funds to invest in Baltic startup ecosystem

Governmental bodies

- Startups in the Baltic in most cases are not familiar with major regulations that affect them
- Education system is currently not set to support high number of growing startups
- There is a lack of financial support for startups from the Government
- Startups have a chance to talk with major policymakers and influence policies; however, smaller startups rarely do that

Venture Capital funds

- Quality of team plays a major role in VC funding decision, apart from other criteria such as product-market fit
- VC funds often look for talented people and companies themselves - they are not passively waiting for startups to reach out
- Covid-19 so far hasn't had negative impact on VC funding in the region

STARTUP INTERVIEWS: LACK OF LOCAL TALENT AND GLOBAL GROWTH AMBITIONS ARE TWO KEY CHALLENGES, ESPECIALLY IN LATVIA

LIMITED EFFECT | NO EFFECT | STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

Insight	Relevant Countries	Comments
1 Lack of talent		• At the initial stage, startups mainly lack **IT and software development skills**. At further startup development stages, lack of **sales and customer acquisition expertise** is present • When startup becomes bigger, **shortage of senior and management level employees** presents a problem. The potential reason might be that **older generations do not view startups as attractive** as millennials and younger generations do
2 Lack of ambition		• The lack of ambition and inability to think big can be partially attributed to the fact that **Baltic startups originate from very small markets** and are unable to picture themselves being in competition with companies from bigger markets, e.g., US or the rest of Europe. However, **Baltic startups very early reach the stage that requires them to enter international markets** • Applying for international mentorship programmes and incubators might improve the situation
3 High demand for employee stock options		• Several interviewees indicated that **many employees choose startups over corporations due to employee stock options**. Employee stock options are essential for people to make sensible decisions at all levels

Source: CIVITTA analysis

STARTUP INTERVIEWS: LATVIAN STARTUP ECOSYSTEM IS BEHIND ON THE INVESTMENT CYCLES & NUMBER OF NEW STARTUPS FORMED

LIMITED EFFECT | NO EFFECT | STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

Insight	Relevant Countries	Comments
4 Lagging on the investment cycles		• Latvian ecosystem's inferiority can be significantly attributed to the fact that **Latvia is on its first investment cycle**, while Estonia is already at its third investment cycle (for instance: Skype founders invested in younger but already huge startups like Bolt; Bolt founders are already investing in even younger startups) and Lithuania is on its second investment cycle
5 Too few companies formed		• The problem Latvian startup ecosystem faces is that not only few startups become successful, but also that **too few companies emerge per year**
6 Quantity over quality		• Estonian startup ecosystem's **focus is switching to quality over quantity**, to help startups grow and mature successfully. Similar trend is expected to be observed in Lithuania soon
7 Bootstrapping is becoming more popular		• Even though funding opportunities are becoming more and more available as investors free funds grow, **many entrepreneurs still choose bootstrapping** for their business financing (at least in the initial stage)
8 Snowball effect		• Small size of the ecosystem allows all participants to **communicate and collaborate with each other. Knowledge sharing is a great facilitator for ecosystem growth** in the Baltics. However, knowledge sharing among Baltic states could be better

Source: CIVITTA analysis

STARTUP INTERVIEWS: EARLY-STAGE INVESTMENTS ARE TYPICALLY DONE BY LOCAL INVESTORS; HOWEVER, THEIR NUMBER AND FUNDS ARE LIMITED

LIMITED EFFECT | NO EFFECT | STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

	Insight	Relevant Countries	Comments
9	Funding attraction skills gap		• Network is important to attract funding; however, interviews also indicate that **serial entrepreneurs show better funding attraction skills** (e.g., pitching, financial skills)
10	Low number of strong local VCs		• As mentioned above, early-stage investments are mainly done by local VC funds. However, the **number of strong local VC funds is limited**, which leads to early-stage funding shortage
11	Way of perceiving and doing business		• 'While Estonia was creating Skype, Latvia had a lot of large 1000 employee outsourcing companies and that affected the mindset' – actual quote from one interviewee • This mindset is likely what gave Estonians the running start
12	Early-stage investment done by local investors		• Equity gap is present in the Baltic market: **more local funds are available for early ventures** than for growing and maturing the business
13	Foreign funds are quite interested in Baltic startups		• Generally, **foreign funds express interest towards Baltic startups**, although mostly at growth stage. Over the years, as more and more Baltic unicorns are made, the **interest in Baltic startups has been increasing**

Source: CIVITTA analysis

REGULATIONS INTERVIEWS: LACK OF UNITED STRATEGY, VISION, AND PROPER EDUCATION SLOWS DOWN STARTUP DEVELOPMENT PROCESS

LIMITED EFFECT | NO EFFECT | STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

Insight	Relevant Countries	Comments
1 Need of educational system improvement		• **More comprehensive approach to popularization of STEM programmes is needed** • Examples of interesting initiatives might be that Latvian Ministry of Economy has adopted a niche approach to popularize STEM programmes and increase share of high-skilled workers
2 Lack of united and supervised strategy		• **Startup Development Strategy is still in progress and not developed yet.** This might be one potential reason why the ecosystem is still lagging behind more developed ones
3 Lower financial support from the government		• Startups are typically supported by **private investors and funds** (however, government might contribute to private funds; the difference is that **government in this case expects returns**) • Government representatives claim that **higher state grants reduce startups' motivation**
4 HQ relocation is not seen as a problem		• In majority of cases, **startups relocate their HQ to attract foreign investors** • Authorities do not find this problematic; however, they find it important to build strong emotional bonds that would facilitate startups' re-investment in their country of origin
5 Opportunity to communicate with authorities directly		• Baltic startups have unique opportunity to have **direct communication with authorities** and **affect policy making process** in the Baltics, as opposed to bigger European countries where big political figures are rather unavailable for small players

Source: CIVITTA analysis

REGULATIONS INTERVIEWS: STARTUPS LACK AWARENESS ABOUT REGULATORY CHANGES

LIMITED EFFECT | NO EFFECT | STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

	Insight	Relevant Countries	Comments
6	Startups have limited awareness about affecting policies		• **Startups have limited knowledge about startup regulations and policies.** Namely, startups restrict their knowledge only to specific articles relevant to them and do not show high interest in policy development as such
7	Low involvement of startups in policy development		• Typically, **smaller startups do not have time and resources to participate in policy development process** • Moreover, **low involvement of startups** in the policy development process **implies lack of feedback**, and therefore, **lower efficiency of laws**
8	High taxation		• Startups in Lithuania and Estonia mentioned that **taxes on employee stock options** are too high • Several startups also indicated that **employer payroll taxes** are too high
9	Changing laws and regulations		• **New startup laws and regulations are being issued** in Baltic countries (e.g., e-residency in Estonia, startup stock option regulation in Latvia and similar) • However, startups themselves indicate that some regulations are nicely put on paper but hard to implement in real life. Startups in LV and LT particularly highlight complicating practicalities in attracting foreign talent

People and businesses (not limited to startups) have a general tendency to demand low taxes. Should be evaluated carefully if actually reflects the reality

CIVITTA Source: CIVITTA analysis

ORGANIZATIONS INTERVIEWS: STARTUP SUPPORT ORGANIZATIONS LACK COMMON VISION, GOAL, AND CENTRALIZATION

LIMITED EFFECT | NO EFFECT | STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

	Insight	Relevant Countries	Comments
1	Lack of clear and united goal		• Several interviews indicated that **startup support organizations do not utilize synergies from working together**. Although organizations cooperate reasonably well within one country, there are still things that could be improved
2	Voluntary or part-time contribution of organizations members		• Majority of startup support organizations are non-profit; therefore, **many employees work there either voluntarily or part-time**. This might affect the motivation and effort that organization members put into work
3	Weak intercountry collaboration		• **Baltic startup ecosystems tend to develop in their own bubbles** • Lack of intercountry collaboration affects Estonia the least as Estonian startup ecosystem is the strongest and aims to collaborate with even more developed ecosystems (e.g., in the Nordics)
4	Ecosystem's small size allows for easier collaboration with each other		• **Small size of the ecosystem allows all ecosystem players to know each other personally** and collaborate • Currently startup support organizations remain decentralized, which might negatively affect their performance considering absence of monetary motivations

CIVITTA Source: CIVITTA analysis

VC INTERVIEWS: THE BIGGEST STRENGTH OF BALTIC STARTUPS IS THE RELATIVELY SMALL LOCAL MARKET, FORCING THEM TO THINK GLOBALLY FROM DAY ONE

LIMITED EFFECT | NO EFFECT | STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

VC funds from Latvia thinks that the bigger challenge is finding deep bench of senior executives

	Insight	Relevant Countries	Comments
1	Lack of IT talent is limiting growth of Baltic startups		• Startups in general have **difficulties in hiring IT positions**, especially in early stages • **Sales, Marketing and Business development personnel is also hard to find** at later stages
2	Quality of team is the major factor in VC funding decision		• In early stage VCs, **quality of team members and founders** is the most important factor • Other factors include ambition, product, potential market size, traction, and competition • However, the overall **decision making process is rather subjective** – "more art and intuition than science"
3	VCs often reach out interesting startups		• **Early stage VCs often conduct outreach** to startups whose founders have good experience • They look for people leaving big tech, people from sports or academia, in general those with **good track record** of building something
4	Small local market size makes startups think globally		• Due to small size of Baltic markets**, founders need to think in early stage how can they scale their startup outside Baltics**. This gives the edge in internationalization, compared to big markets such as Poland
5	Covid-19 hasn't had negative impact on VC funding		• **Covid-19 didn't have much impact** on the amounts of funding and number of startups funded by early stage VCs in the Baltics • Most recent situation in Ukraine, at least for the first month, also didn't influence early stage funding from local VCs; however, things might be different for Western-based VCs

\ EU STARTUP ECOSYSTEM PODCAST ANALYSIS: EU STARTUP ECOSYSTEM STILL HAS AREAS FOR IMPROVEMENT

STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

Insight	Relevant Startup Members	Comments
1 Lack of diversity	Startups, VC funds	▪ Startups and VCs are significantly **white male-dominated**. The **industry will benefit from more inclusiveness** in terms of gender, race, nationality and general background
2 Lack of local funds	VC funds, startup support organizations, governmental institutions	▪ Significant part of **capital inflow to European startups comes from outside of Europe** (e.g., U.S., Asia). However, local funds should be developed to sustain European startup ecosystem and to direct returns back to Europe
3 Under-developed pre-seed stage financing	VC funds, startup support organizations, governmental institutions	▪ While later-stage investments have been growing significantly, **early-stage investments are lagging behind or even shrinking** ▪ Potential reason might be that the majority of investors are interested in big-sum cheques. Another potential reason is that VC funds are becoming more risk-averse
4 Bureaucracy in the recruitment process	Governmental institutions	▪ Generally, **immigration and relocation** processes in Europe **require a lot of time and effort**. Estonia is used as a role model for other European countries
5 Lack of talent	Startups, governmental institutions	▪ **Shortage of talent is the main barrier for development** of European startup ecosystem. While the region has exceptional tech talent, sales and communication talents are missing
6 Early exits	Startups	▪ European founders are sometimes not bold enough to think globally and continue growing, which results in early exits. Many European founders are **lacking ambition**

CIVITTA Source: CIVITTA analysis

\ EU STARTUP ECOSYSTEM PODCAST ANALYSIS: EU STARTUP ECOSYSTEM IS AT RECORD GROWTH

STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

	Insight	Relevant Startup Members	Comments
1	Development of relevant policies and regulations	Governmental institutions	▪ **Innovative public policy** and **supporting education** are the key success factors of startups in the EU. One should note, however, that the insight is also subject to country-specific laws ▪ Furthermore, **policymakers themselves** tend to **have more positive view on policy and regulation changes than startups and investors**
2	Strongest pipeline of startups ever	Startups	▪ Historically, European startup ecosystem has been lagging behind the U.S. However, due to exponential growth in recent years, **startup pipeline in Europe is similar to the US**
3	Investors raising record capital	VC funds, startup support organizations	▪ Growth in capital is mainly conditioned by **bigger, mega- rounds** ▪ High capital raised also suggests **large competition for best deals** ▪ **Many of the investors**, however, **are foreign**, which implies that returns will not go back to Europe
4	Commitment to sustainability	Startups	▪ New generation of entrepreneurs are committed to **sustainability, startup's positive impact** and **social and environmental responsibility**
5	Switch to 'hypergrowth' mindset	Startups, startup support organizations	▪ Lead by the example of unicorns, the **ecosystem expects to see fewer early exits** and an **ambition to build internationally leading companies** ▪ Mentorship provided by foreign startup support organizations (e.g., from the U.S.) also positively affects the switch from a conservative mindset

CIVITTA Source: CIVITTA analysis

\ EU FAILED STARTUPS INTERVIEW ANALYSIS: POOR MARKETING STRATEGY, INABILITY TO APPROACH INVESTORS AND DELEGATE TASKS CAN LEAD TO FAILURE

STRENGTHS | NEUTRAL INSIGHTS | KEY DEVELOPMENT AREAS

	Insight	Relevant Startup Members	Comments
1	Poor market analysis and strategy	Startups	▪ **Underestimation of a marketing strategy/poor product launch**: based on the interviews, the majority of founders indicated they did not pay enough attention to marketing strategy, marketing instruments, and product launch. Ultimately, they believed these were the possible reasons for their failure
2	Weak market knowledge	Startups	▪ **Assess the competition within a market you are trying to enter:** «if you're making a new product in a crowded market, you better make sure your product offers significant advantages over the other ones»
3	Inability to approach investors	Startups	▪ **Inability to properly approach investors and raise funds:** "Asking money is an art form itself and we were really lousy at it" ▪ **Wasting too much time on relationships with investors:** "Don't wait for an investor to make up their mind. Go to the next one. Pitch your idea and move on to the next"
4	Inability to delegate or work with a partner	Startups	▪ **Inability to delegate: «**Startup founders often feel they have all the skills and knowledge necessary for a new business and that they can solve all the problems alone» ▪ **Doing a project solely (without a partner)**: «If I'm ever to do a project like this again, finding someone who compliments my skills to do it with is a must»
5	Founder team diversity	Startups	▪ **Problems within the team**: «The initial team recruited was heavily technology-centric and lacked teamwork, passion and business vision» ▪ **Team diversity**: «We were 3 men working in a market driven by women. I'm sure a lot of our potential clients went somewhere else because of the lack of feminine touch in our product and communication»

CIVITTA Source: CIVITTA analysis

Agenda

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WE SURVEYED 1798 RESPONDENTS ACROSS BALTICS: KEY SAMPLING PARAMETERS, SUCH AS STRUCTURE BY AGE AND EMPLOYMENT, WERE PRESET BY SURVEY DESIGN

RESEARCH METHOD • CAWI online survey

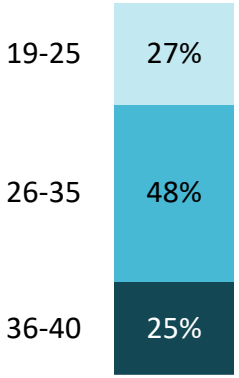
NUMBER OF RESPONDENTS • 1798

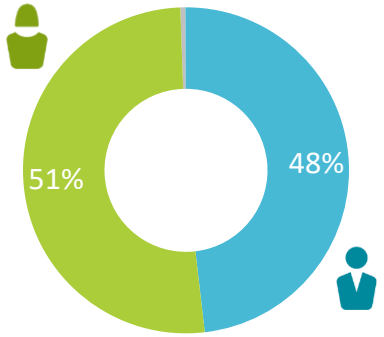
GEOGRAPHY • The Baltics states

REQUIREMENTS FOR RESPONDENTS • People who study / work in business / IT fields

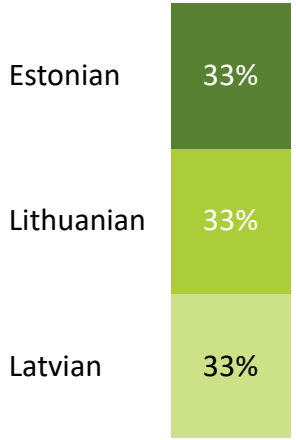
SURVEY DATES • April 11-20

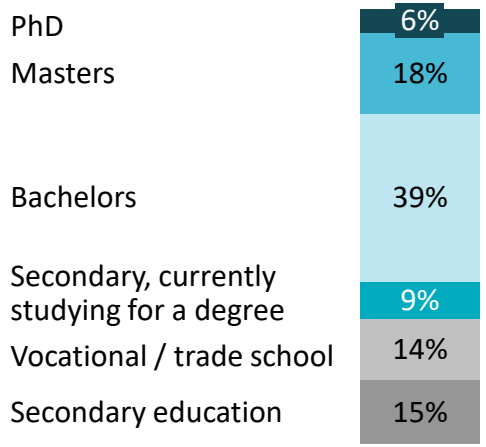
SAMPLE STRUCTURE BY AGE AND SEX





SAMPLE STRUCTURE BY COUNTRY AND EDUCATION LEVEL





Source: CIVITTA analysis

EMPLOYEE SURVEY SUMMARY

EMPLOYEE SURVEY RESULTS

EMPLOYEE PREFERENCE

- People in the Baltics **prefer to work in already established mature startups**, while they have **opposite** preference when it comes to **working and building small startups**
- Compared to corporations, **Baltic people would require on average ~40% higher salary** to consider joining a startup
- **Lithuanians** are people that significantly more consider **working in a startup, but not founding it themselves**

UPSIDES AND DOWNSIDES OF STARTUPS

- **Flexibility, career growth, and competitive compensation** are the main reasons people who don't prefer startups would consider working for them, while the case is similar for current startup employees
- The biggest downsides are **constant change** and **uncertain job security**

STOCK OPTIONS

- The **more people know about stock options**, the **more they consider them important** when joining a startup
- **Estonians are most knowledgeable about stock options**, while Lithuanians are not that knowledgeable, but the biggest percentage of them is willing to learn more. Latvians are least knowledgeable of all Baltic countries

JOB RELATED TRAININGS AND EDUCATION

- There is **no clear pattern regarding the level of education and preparation for future workplace** – the differences are mostly between different professions
- **Estonians** have the **fewest job-related mandatory trainings**, while **Lithuanians** have the **fewest optional ones**

\ COUNTRIES AT A GLANCE

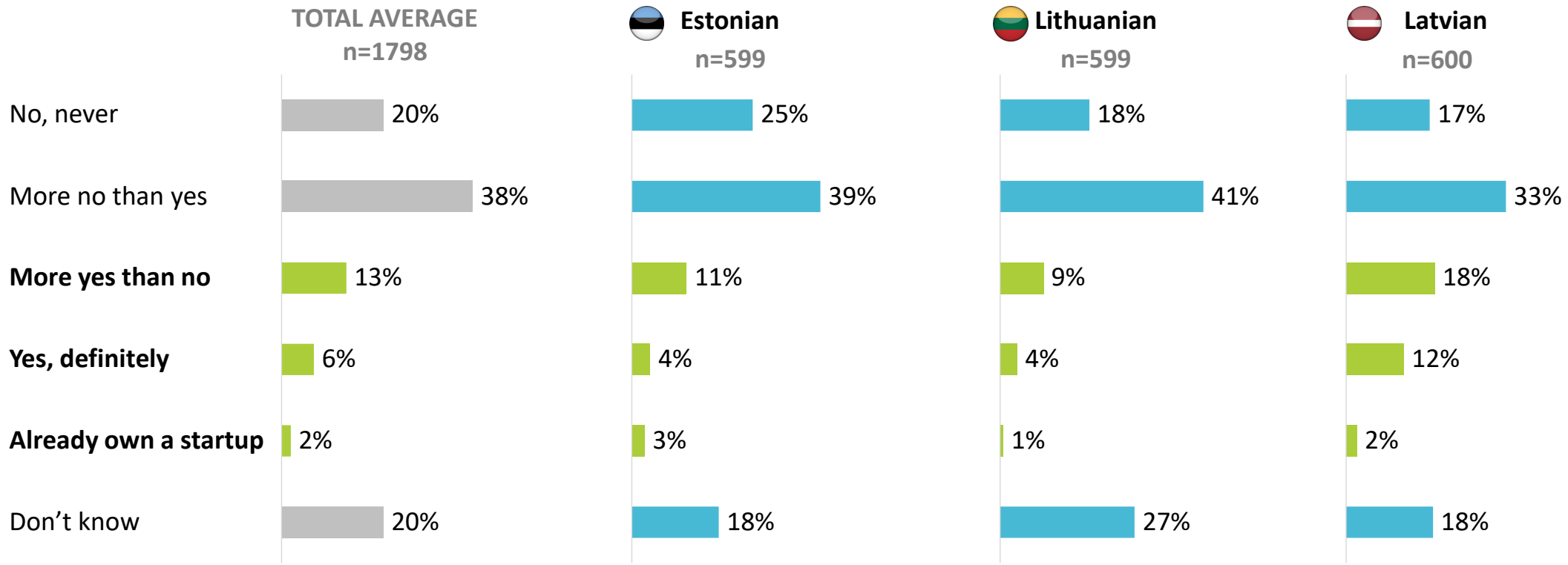
- **In the middle when it comes to founding new startups**
- **To consider employment** with a startup, respondents would primarily expect **compensation package, flexible work** and **higher career growth**
- Biggest potential **downsides** of working in a startup, apart from the main ones, is **a heavy workload**
- **Most knowledgeable about stock options** and most of them consider them important
- Feel **least prepared by their formal education**, and have **fewest mandatory trainings**

- **Least willing to found their own startup**, but also **most willing to work in one**
- **To consider employment** with a startup, respondents would primarily expect **flexible work, compensation package** and **interesting product**
- Biggest potential **downsides** of working in a startup **are large workload** and **lack of resources**
- **Very knowledgeable about stock options**
- Feel they are **best prepared by their formal education**, but also have most mandatory trainings

- By far the **most entrepreneurial employees** when it comes to founding startups
- **To consider employment** with a startup, respondents would expect primarily **compensation package, higher career growth** and **flexible work**
- Biggest **downsides,** apart from main ones, are **lack of resources** and **lower pay**
- **Least knowledgeable about stock options** and don't consider them as important

AROUND ONE FIFTH OF PEOPLE IN THE BALTICS CONSIDER FOUNDING A STARTUP IN THE NEXT 5-10 YEARS OR ALREADY OWNS ONE

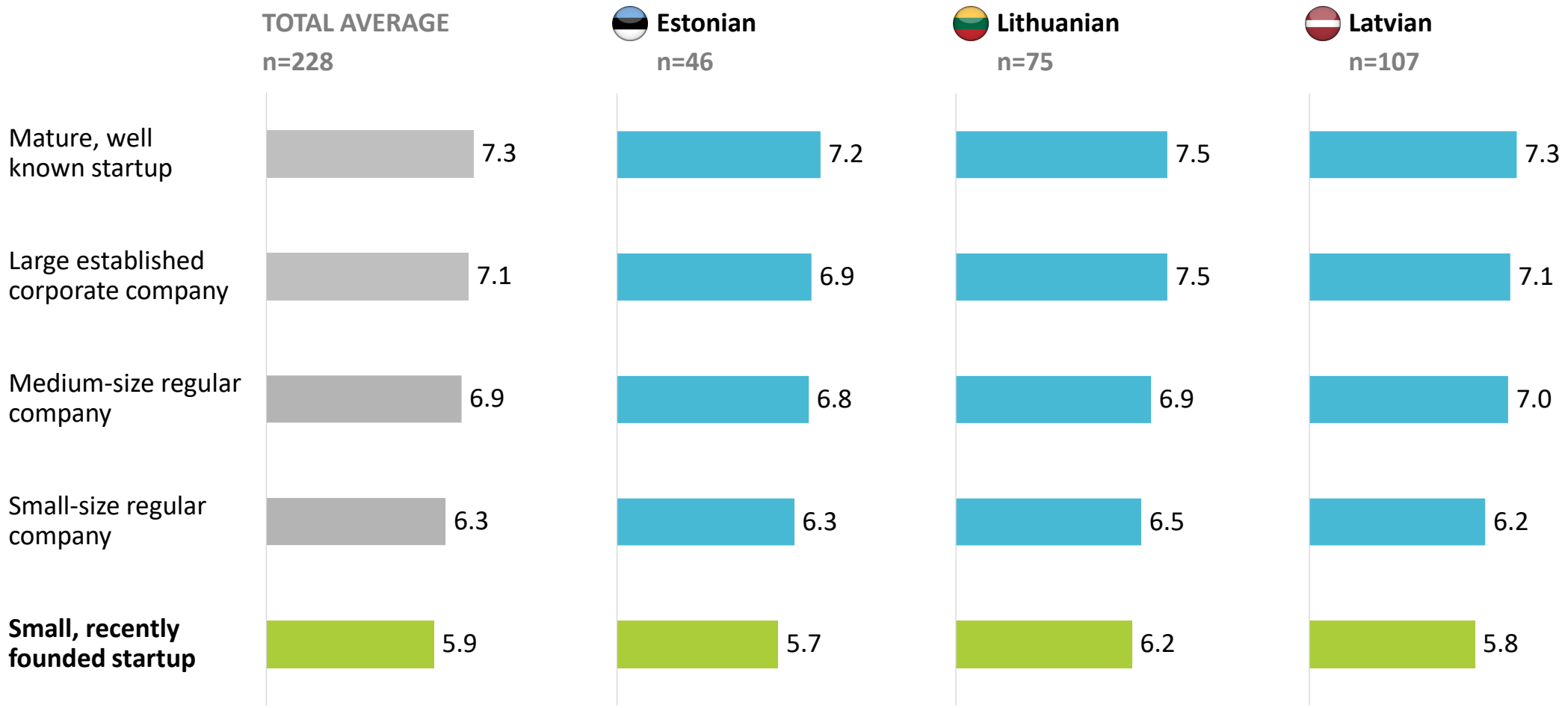
WOULD YOU REALISTICALLY SEE YOURSELF FOUNDING A STARTUP IN THE NEXT 5-10 YEARS?, % of respondents)



The marketing profession is by far the most likely to found a startup in the next 5-10 years, with around 40% of respondents giving a positive answer

EMPLOYEES WANT TO WORK AT A MATURE, WELL-KNOWN STARTUP

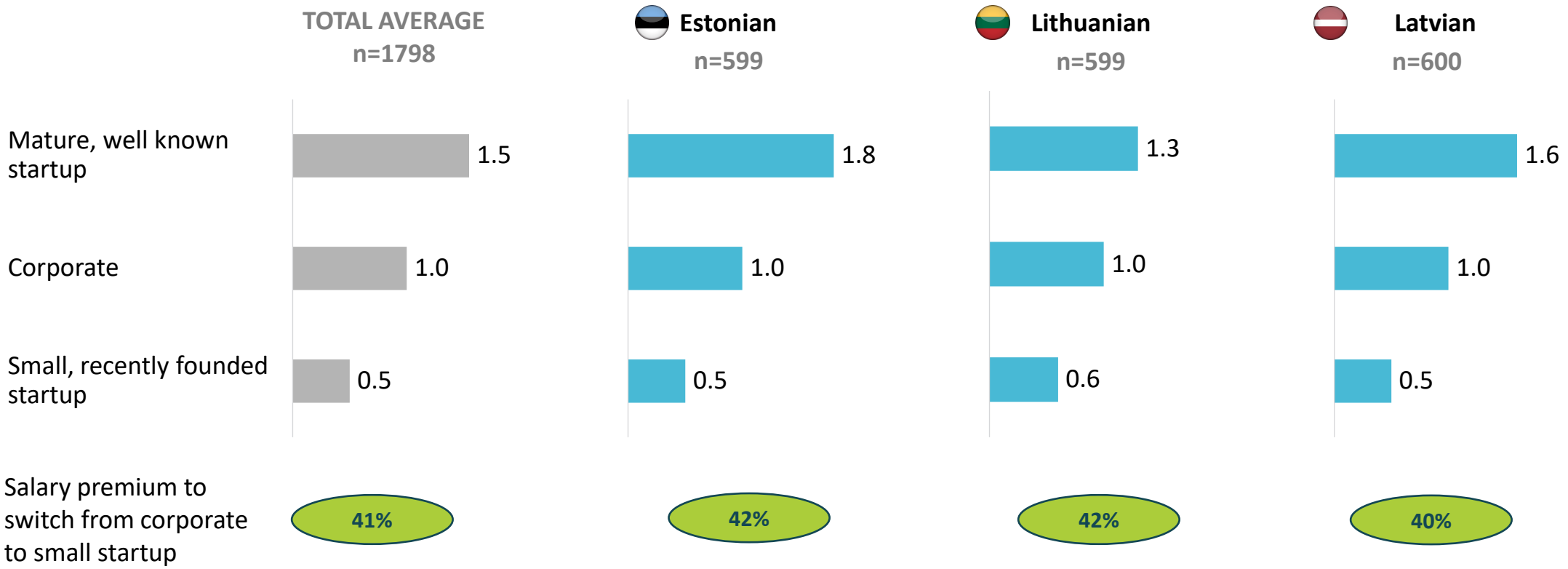
ATTRACTIVENESS OF COMPANIES TO WORK WITH FOR EMPLOYEES, (1 – not attractive, 10 – very attractive)



Source: Employee survey answers "How attractive would you find working for the following companies?" (1 – not attractive, 10 – very attractive)

HOWEVER, YOUNG STARTUPS FIND IT DIFFICULT TO ATTRACT EMPLOYEES

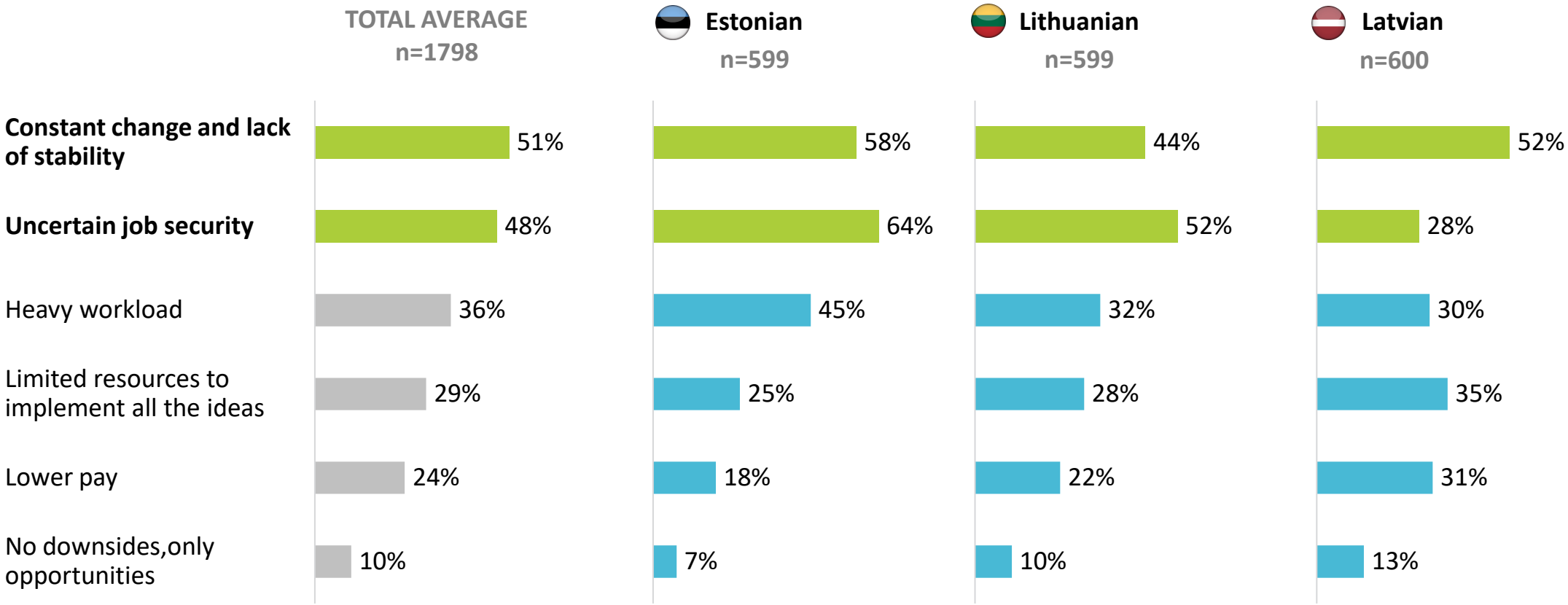
ASSUMING THE SAME CONDITIONS (POSITION, SALARY, BENEFITS, WORK HOURS ETC.), WHERE WOULD YOU PREFER TO WORK?, % of respondents vs % of Large corporate company and **HOW MUCH BIGGER SALARY SHOULD IT OFFER FOR YOU TO CHOOSE IT OVER CORP.**



CIVITTA Source: CIVITTA analysis

MAIN REASONS FOR THAT ARE CONSTANT CHANGES AND UNCERTAINTY RELATED TO WORK

IN YOUR OPINION, WHAT ARE THE BIGGEST POTENTIAL DOWNSIDES OF WORKING IN A STARTUP?, % of respondents

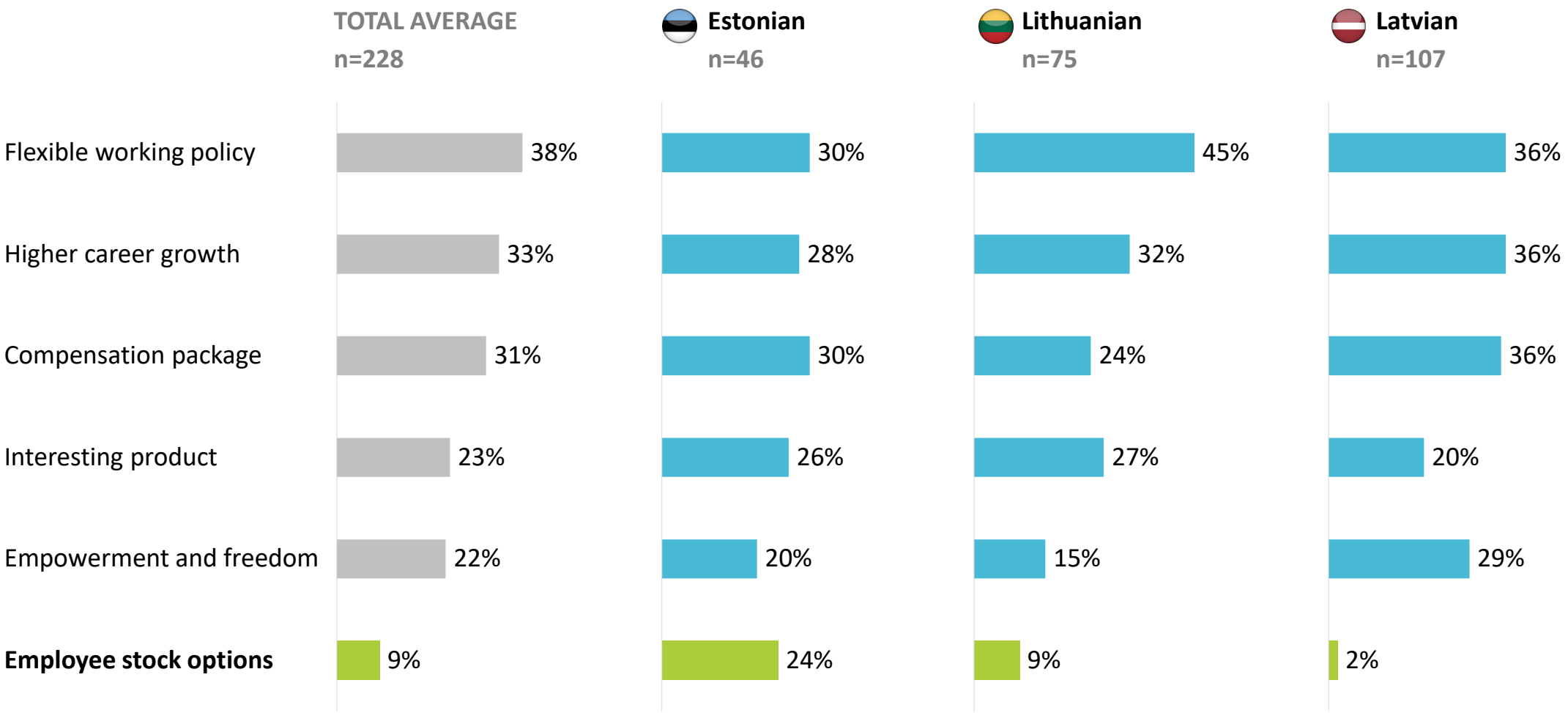


Respondents from IT/technology are particularly fearful of a heavy workload and long hours (44%) when discussing working for startups, contrasted by a 36% average

Source: CIVITTA analysis

A SMALL % OF RESPONDENTS IN LITHUANIA AND LATVIA CONSIDER STOCK OPTIONS AS MAIN REASON FOR JOINING

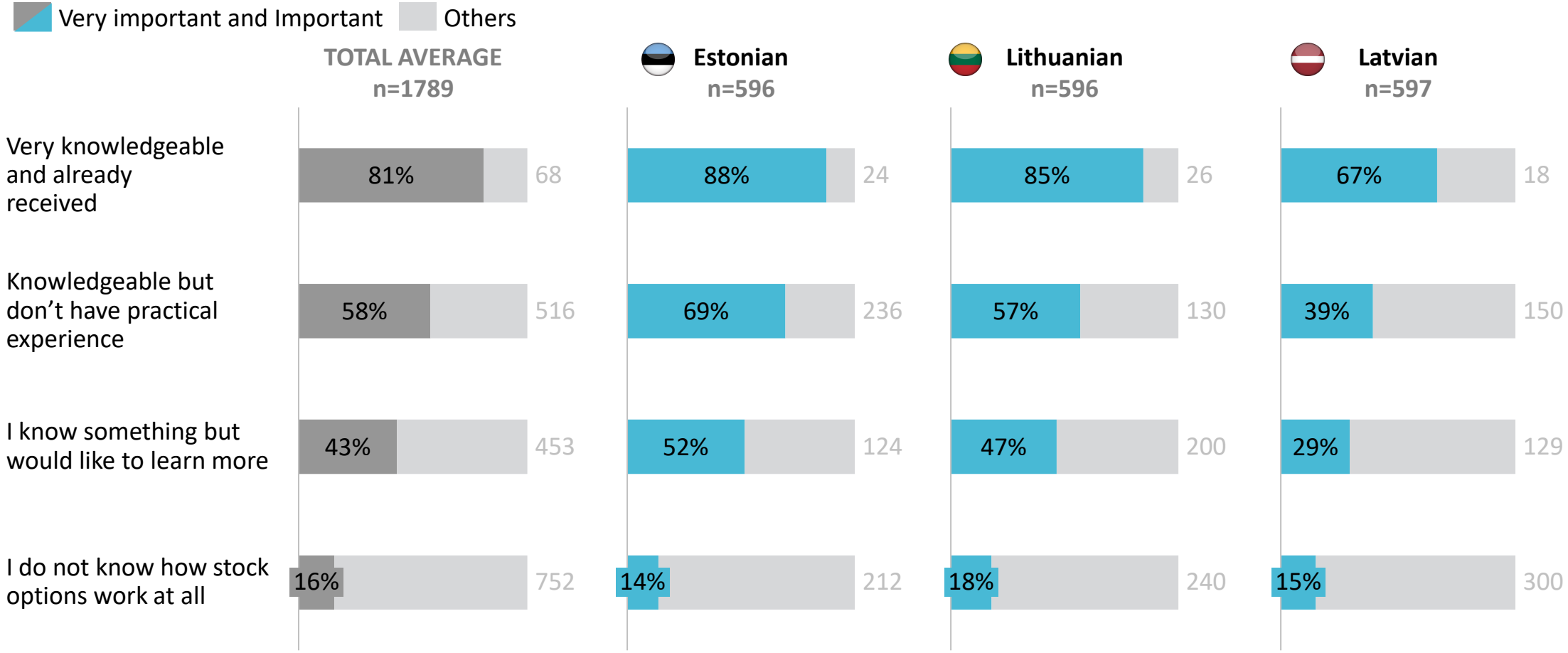
WHAT WERE THE MAIN REASONS FOR YOUR DECISION TO WORK IN A STARTUP FOR EMPLOYEES, % of respondents



CIVITTA Source: CIVITTA analysis

HOWEVER, THEY CAN BECOME A POWERFUL TOOL TO ATTRACT EMPLOYEES IF THEY HAVE KNOWLEDGE ABOUT THE SUBJECT

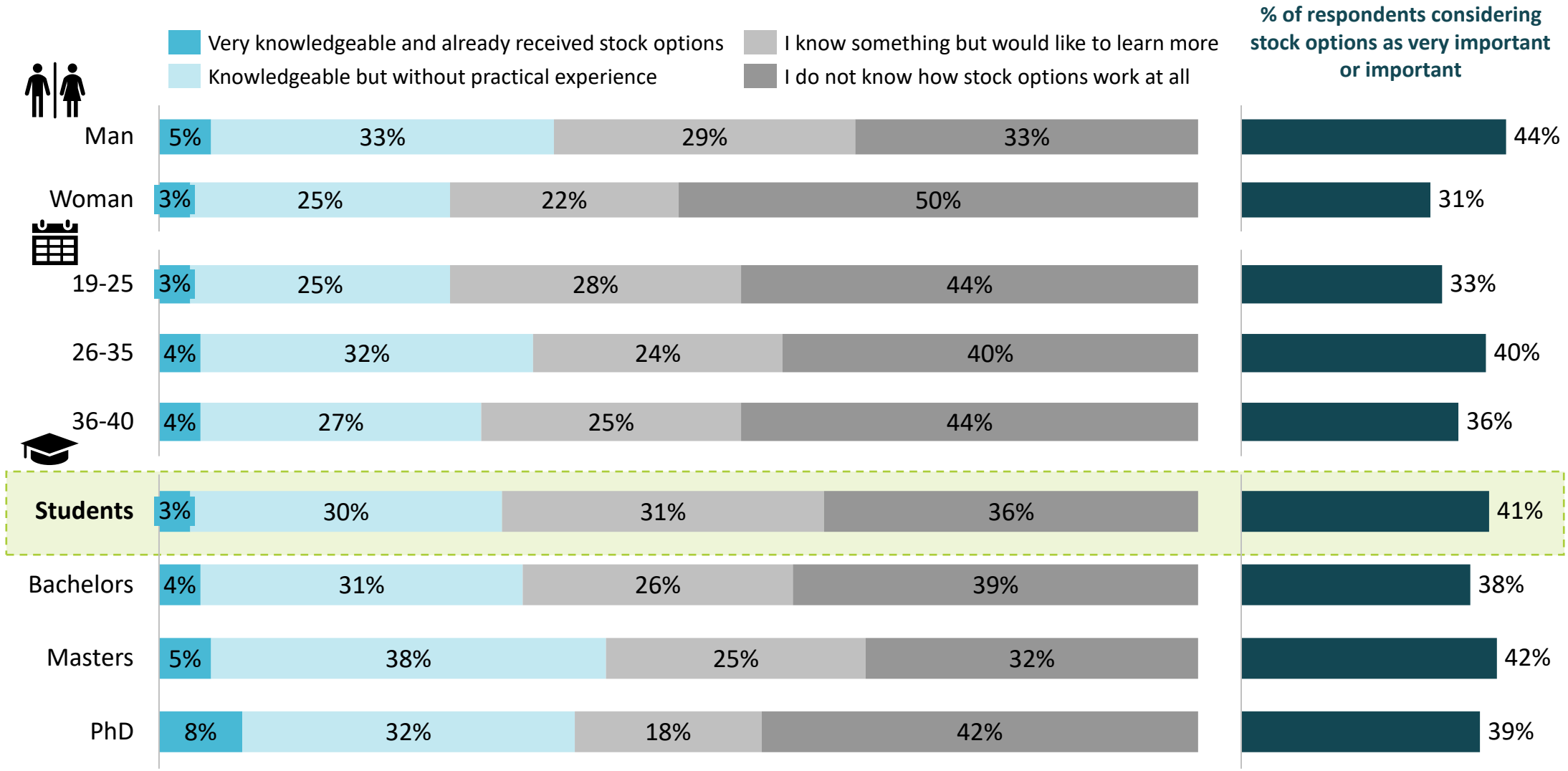
HOW KNOWLEDGEABLE ARE YOU ABOUT STOCK OPTIONS?, # of respondents



Source: CIVITTA analysis

STUDENTS ARE MOST WILLING TO LEARN MORE ABOUT STOCK OPTIONS

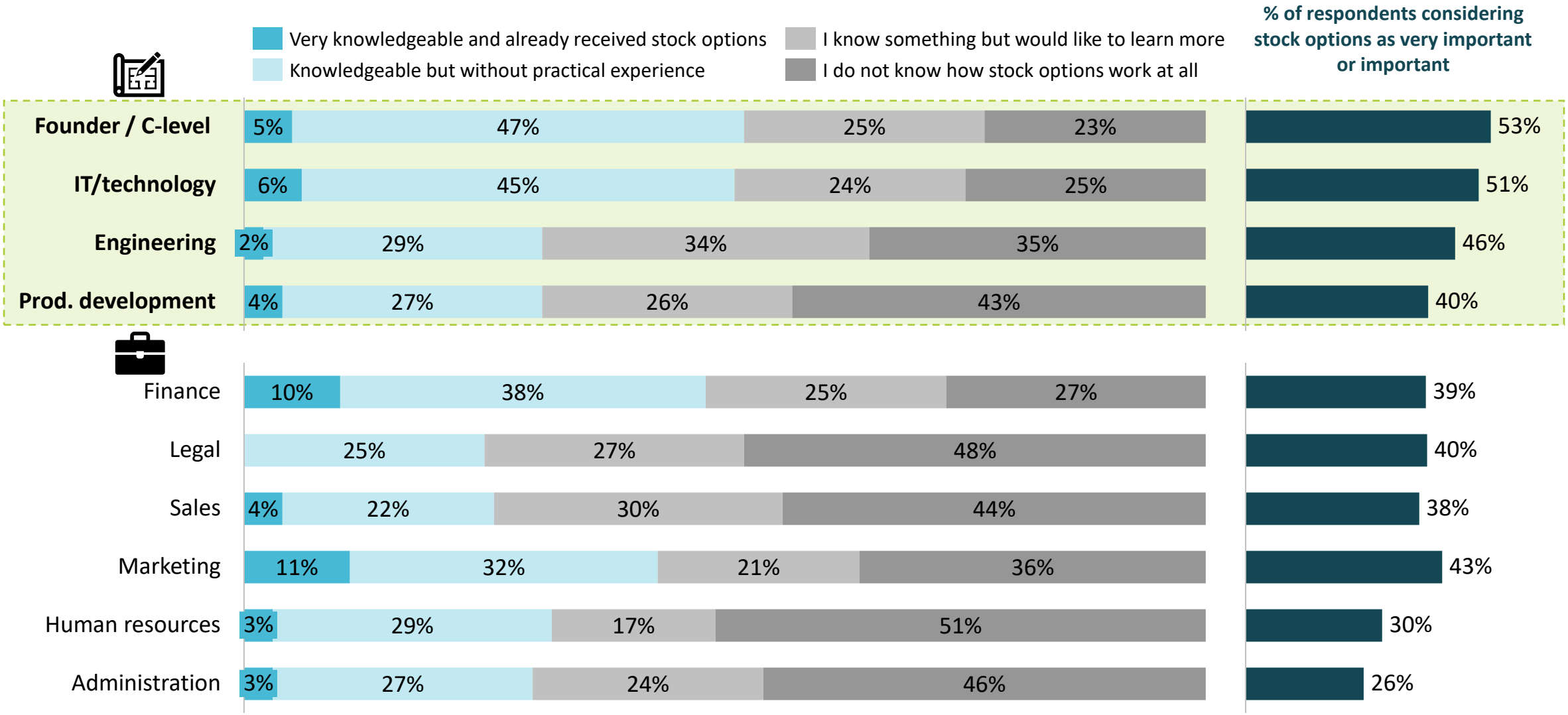
HOW KNOWLEDGEABLE ARE YOU ABOUT STOCK OPTIONS?, % of respondents



Source: CIVITTA analysis

TECHNICAL EMPLOYEES ARE MORE KNOWLEDGEABLE ABOUT STOCK OPTIONS THAN BUSINESS EMPLOYEES

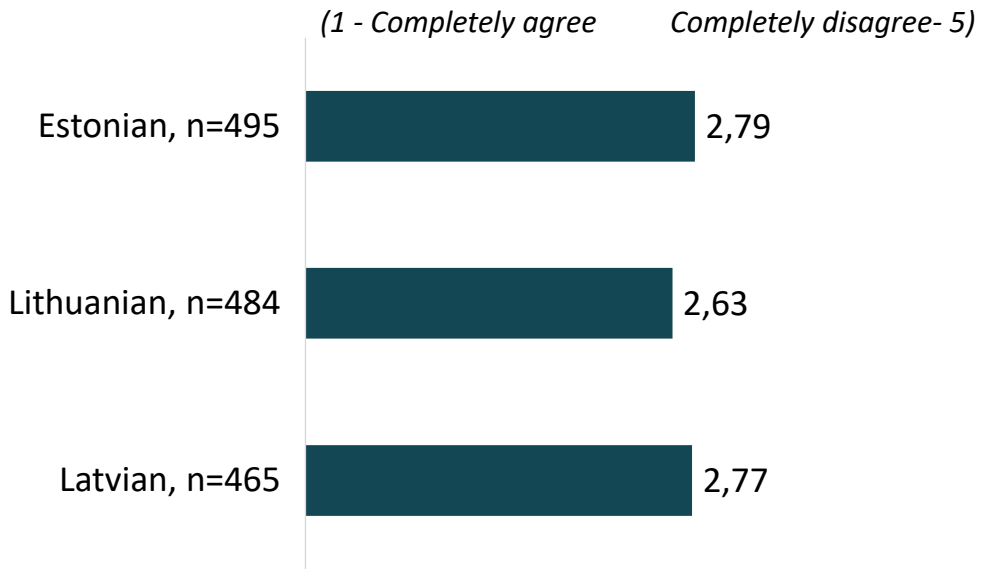
HOW KNOWLEDGEABLE ARE YOU ABOUT STOCK OPTIONS?, % of respondents



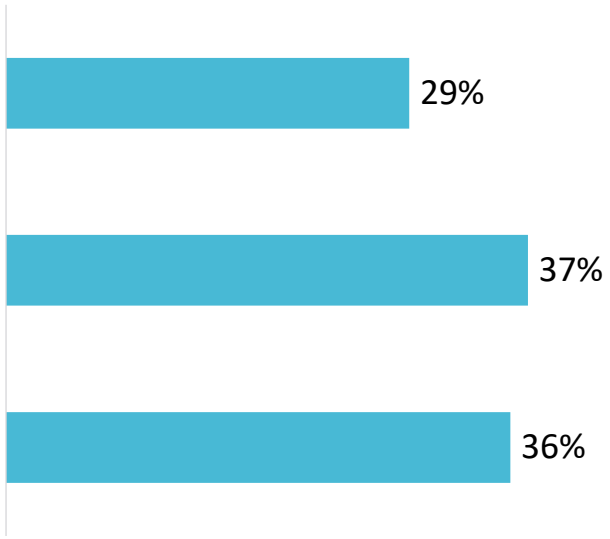
Source: CIVITTA analysis

PEOPLE IN THE BALTICS ARE INDIFFERENT OR DO NOT THINK THAT THEIR EDUCATION PREPARED THEM WELL FOR THEIR CURRENT POSITIONS

I FEEL THAT MY FORMAL EDUCATION HAS PREPARED ME WELL FOR MY CURRENT POSITION?



DOES YOUR COMPANY PROVIDE TRAININGS? (Answer: Yes, we have mandatory trainings, % of all respondents**)**

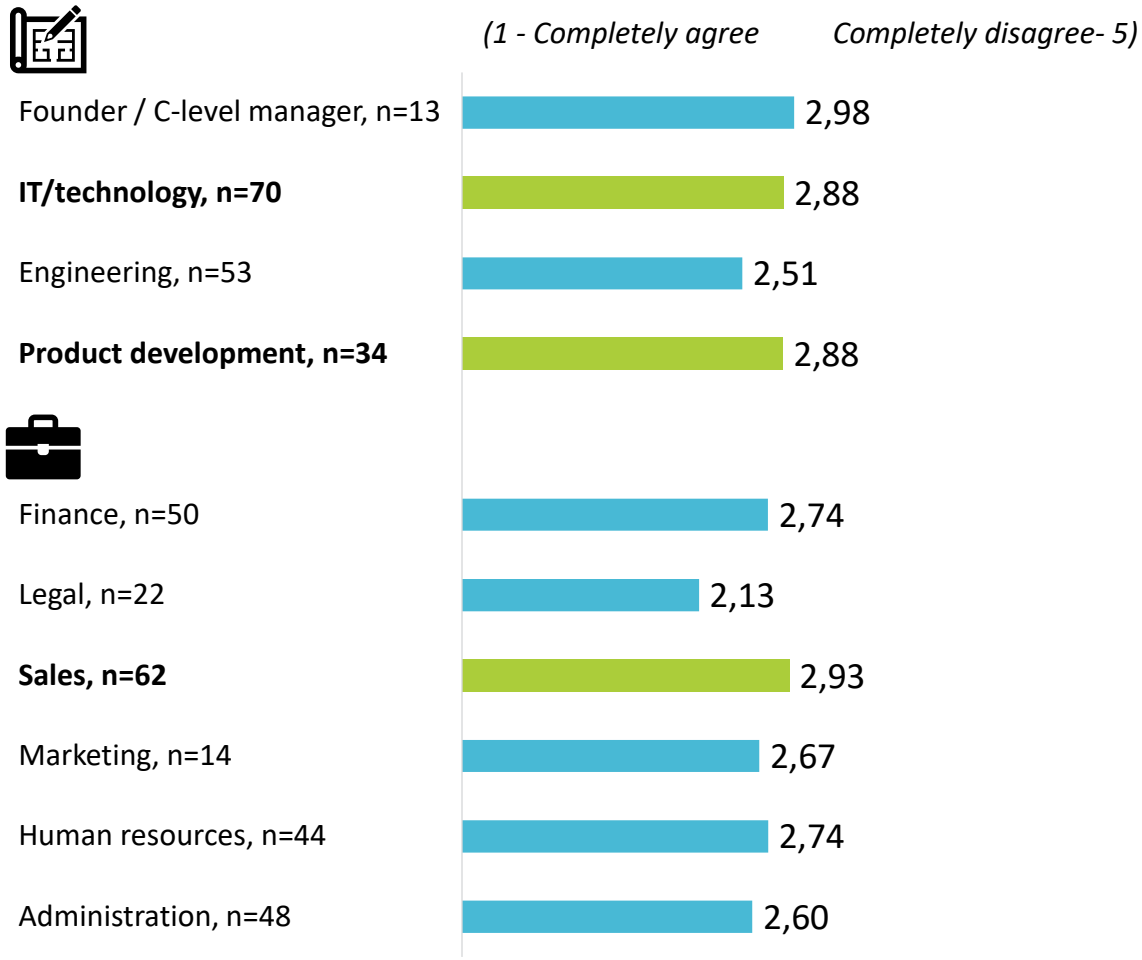


IT people, **sales,** and **product development** feel **least prepared by their formal education** and **salespeople also have most mandatory trainings**. On the contrary**, marketing people** have by far **the fewest mandatory training**

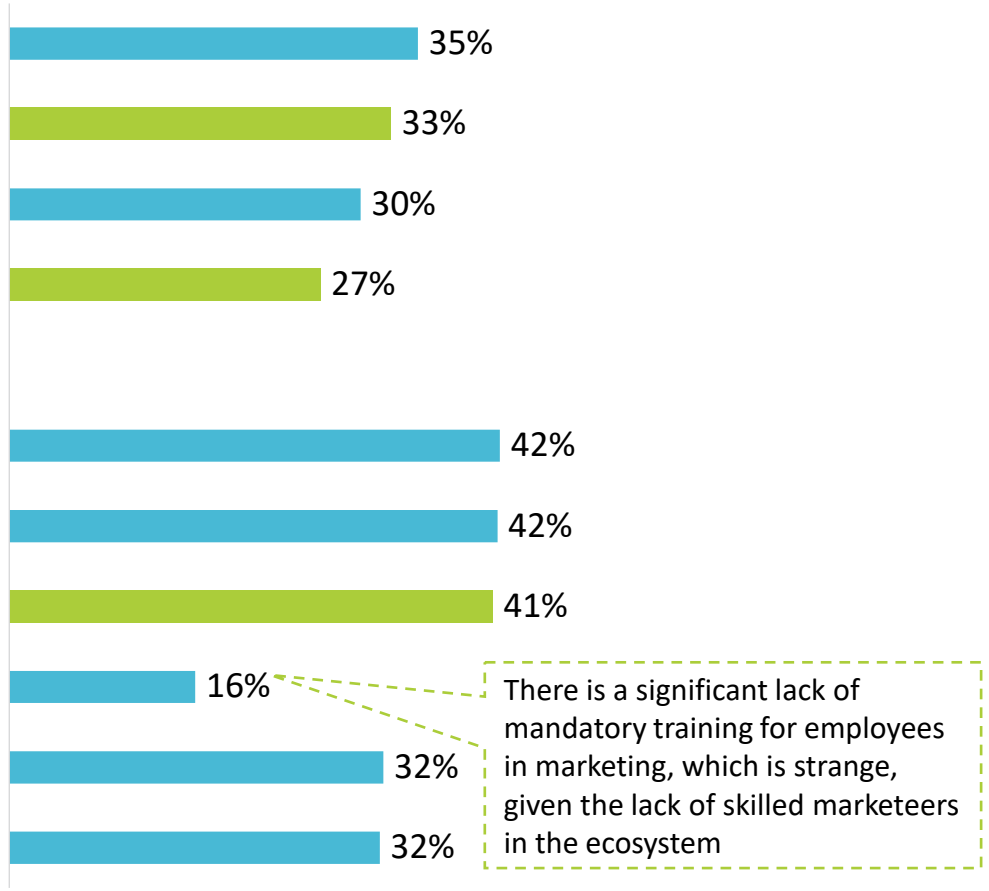
Source: CIVITTA analysis

IT PEOPLE, SALES, AND PRODUCT DEVELOPMENT FEEL LEAST PREPARED BY THEIR FORMAL EDUCATION

I FEEL THAT MY FORMAL EDUCATION HAS PREPARED ME WELL FOR MY CURRENT POSITION?



DOES YOUR COMPANY PROVIDE TRAININGS?" (Answer: Yes, we have mandatory trainings, % of all respondents**)**



CIVITTA Source: CIVITTA analysis

Agenda

1. Startups in the Baltics
2. Ecosystem health check
3. Policies & regulations
4. **Interviews & survey results**
   - Interviews
   - Employee survey
   - **Startups survey**
5. Recommendations
6. Methodology Note

WE SURVEYED 108 FOUNDERS ACROSS THE BALTICS: THE MOST COMMON STARTUP WAS B2B, IN SECOND STAGE OF DEVELOPMENT, WITH 1-10 EMPLOYEES

RESEARCH METHOD • CAWI online survey

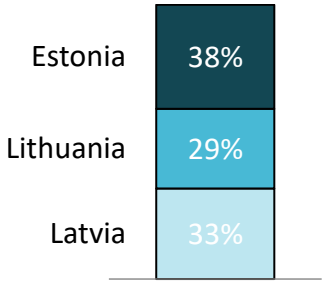
NUMBER OF RESPONDENTS • 108

GEOGRAPHY • The Baltics states

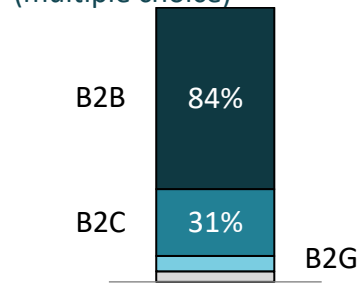
REQUIREMENTS FOR RESPONDENTS • Founders, Co-founders, C level executives

SURVEY DATES • April-July

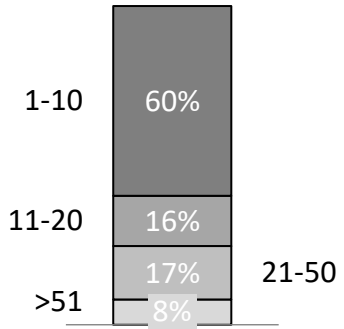
COUNTRY



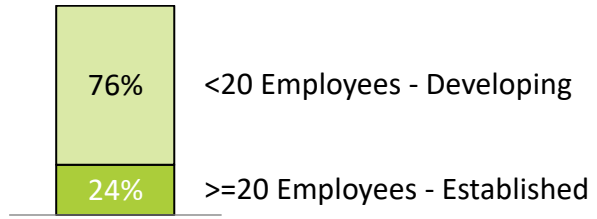
BUSINESS FOCUS
(multiple choice)



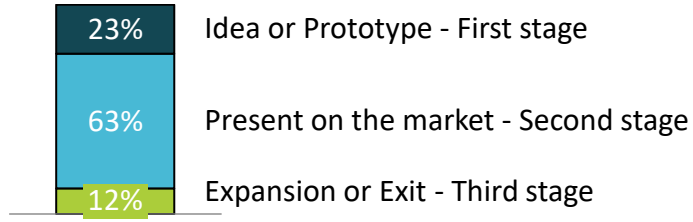
NUMBER OF EMPLOYEES



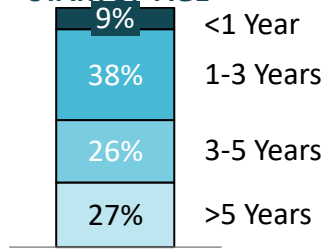
COMPANY SUCCESS



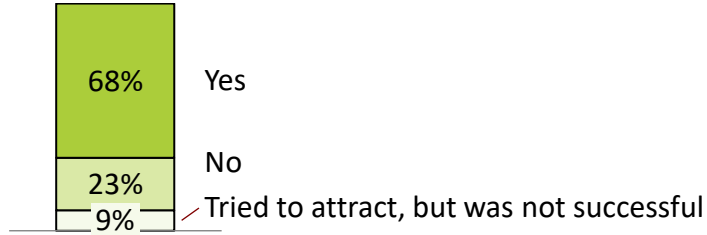
CURRENT STAGE



STARTUP AGE



PAST INVESTMENTS



CIVITTA Source: CIVITTA analysis

STARTUP SURVEY SUMMARY

STARTUP SURVEY RESULTS

DAY-TO-DAY AND ECOSYSTEM CHALLENGES

- **Generating sales** and **attracting great technical talent** are the biggest **day-to-day challenges** startups face - additionally, attracting VC funds is also a huge problem, especially in Latvia
- Similarly, the biggest **ecosystem problems are finding great talent** and **VC money**, with significantly larger problem in Estonia being attracting commercial talent, likely due to ecosystem maturity
- According to founders, **governments can primarily provide tax incentives** and **non-equity funding**

AMBITION & FUNDING

- **Baltic startups are ambitious**; on average, more **than 60% of them are aiming for EU or Global market position**
- **Targeted market position evolves as startups grow**; in initial stages, the aim is to be leaders in smaller markets, but as they grow their ambition evolves into being challengers in bigger markets
- It takes **around 23 approaches to VCs to get funding** – more persistent startups ultimately get funded

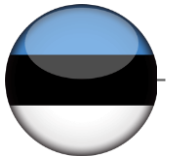
TALENTS & STOCK OPTIONS

- As expected, **professionals from IT** and **data analytics are hardest to attract**
- **Average stock option pool is 8,6%,** where Estonian startups on average offer largest pool to its employees

POLICY AND REGULATION

- **Lithuanian startups seem most burdened by regulation,** both current and upcoming ones
- **E-privacy, Data Act** and **Digital Markets Act** (DMA) are **most recognizable EU regulations** by startup founders
- The **importance and awareness about EU policies** in general **increases as startups grow**

\ COUNTRIES AT A GLANCE



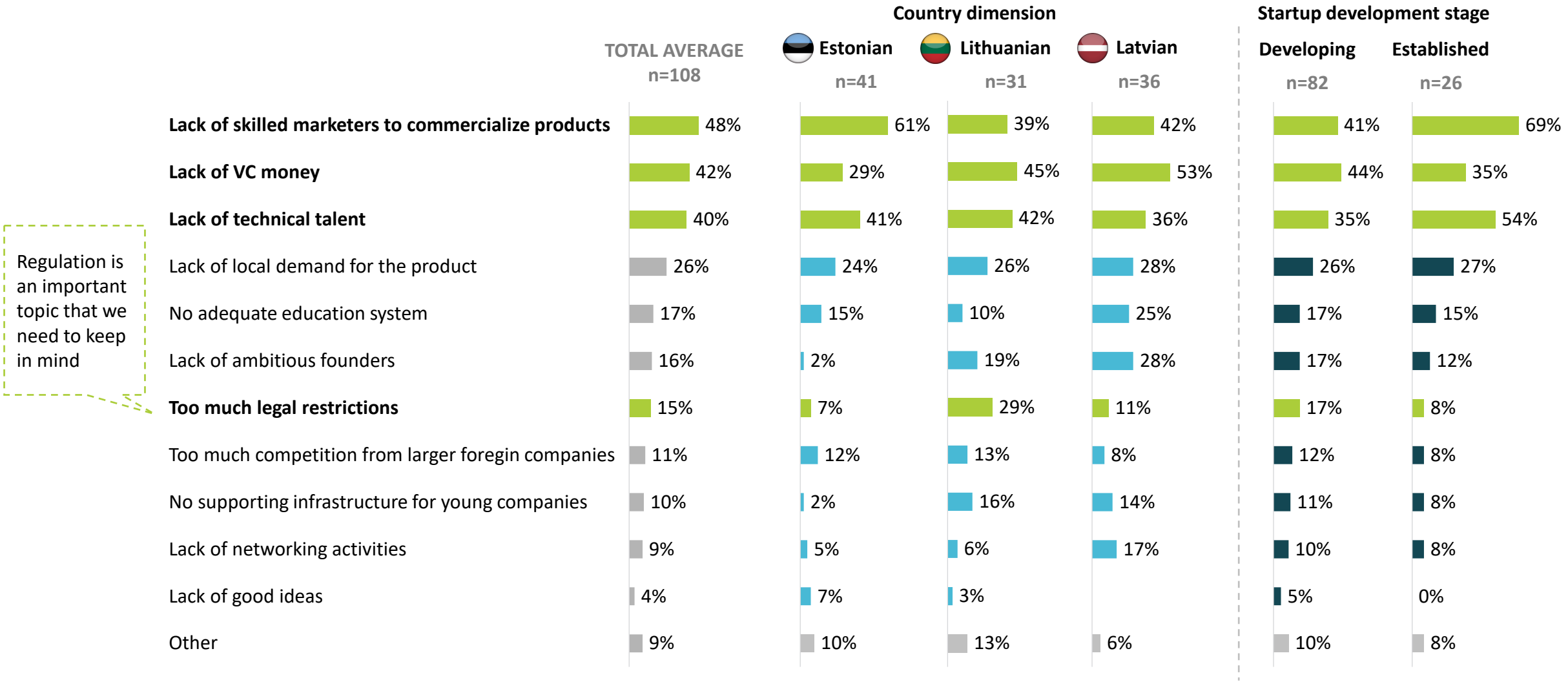
- **Scaling the product** and **lack of expertise for foreign markets** are main day-to-day issues
- The main ecosystem issue seems to be a **lack of local demand**
- Average **number of attempts** to get funded is on par with average **– 23**
- **Easiest to hire local talent**, slightly easier than global
- Have the **biggest stock option pool** with almost 10% on average
- **Don't feel especially burdened by regulations** in the country

- Major issues in day-to-day business in line with other Baltic countries, with addition of **lack of expertise for foreign markets**
- On average took **lowest number of attempts to get funding** – only 20
- They also find it **equally difficult to hire** both local and global talent
- Have the **smallest stock option pool** on average and mostly use it as a retention tool
- **Feel regulatory burden significantly more than other countries** in almost all segments
- Seem to be most knowledgeable about regulations in general

- **Not being able to get enough VC funding** is a burning problem in day-to-day business
- **No adequate education system and lack of ambition** is missing in the ecosystem
- On average, must take **most attempts to get funded** – even 27
- Generally, **find it easier to find great local talent**
- **Stock options** are mostly used as a **motivation tool**
- Have **stock option pool on par with average** for all Baltic countries
- **Don't feel especially burdened by regulations** in the country

MAJOR CHALLENGES FOR STARTUPS: LACK OF SKILLED MARKETERS, VENTURE CAPITAL, AND LACK OF TECHNICAL TALENT

THE MOST IMPORTANT CHALLENGES THE STARTUP ECOSYSTEM FACES IN YOUR COUNTRY, % of respondents

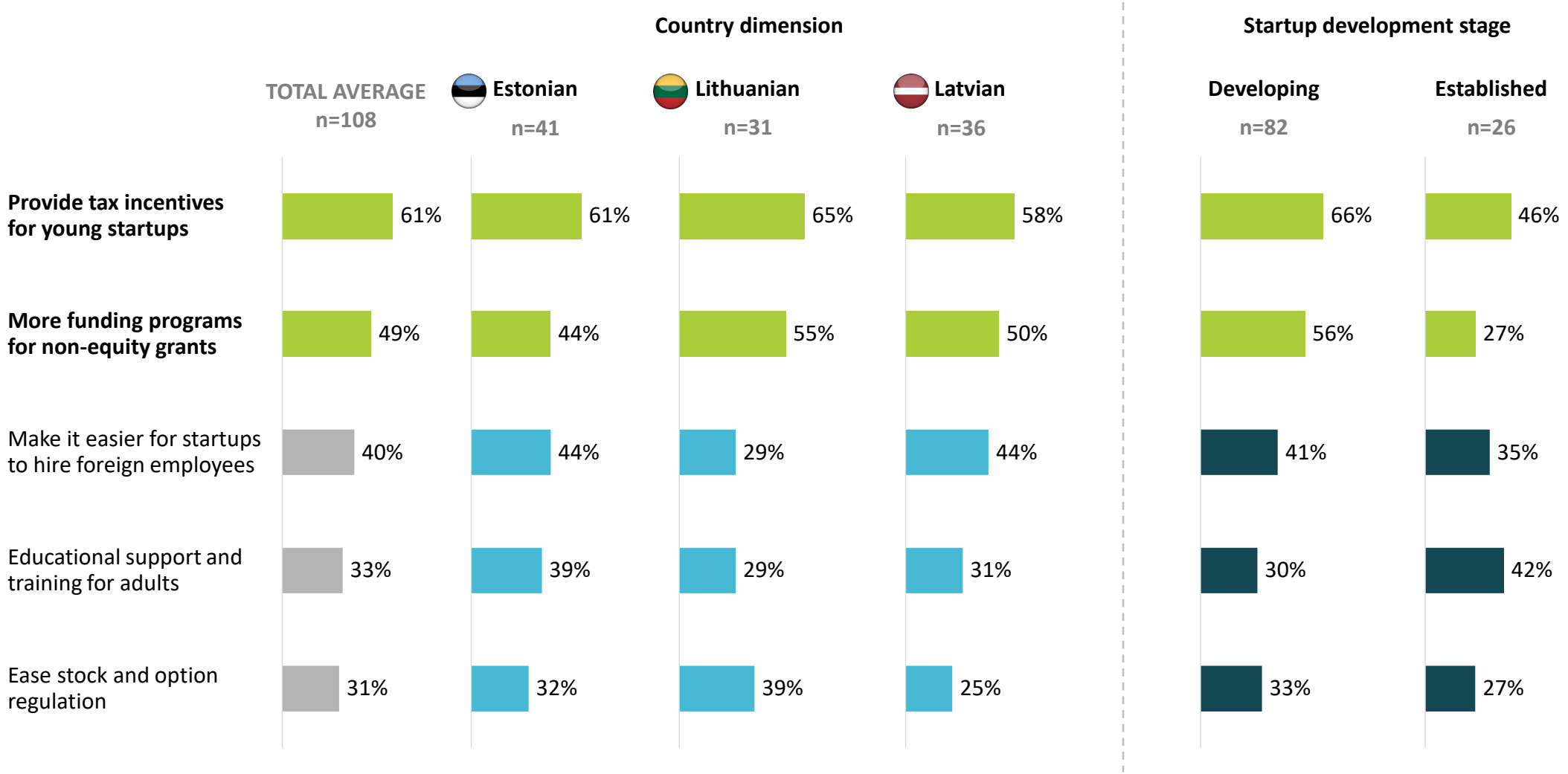


Regulation is an important topic that we need to keep in mind

CIVITTA Source: Startup survey answers "WHAT ARE THE MOST IMPORTANT CHALLENGES THE STARTUP ECOSYSTEM FACES IN YOUR COUNTRY?"

TAX INCENTIVES AND FUNDING PROGRAMS ARE BY FAR THE MOST FREQUENTLY CITED FORM OF GOVERNMENT ASSISTANCE

WHAT DO YOU THINK THE GOVERNMENT COULD DO TO HELP STARTUPS IN YOUR COUNTRY?, % of respondents

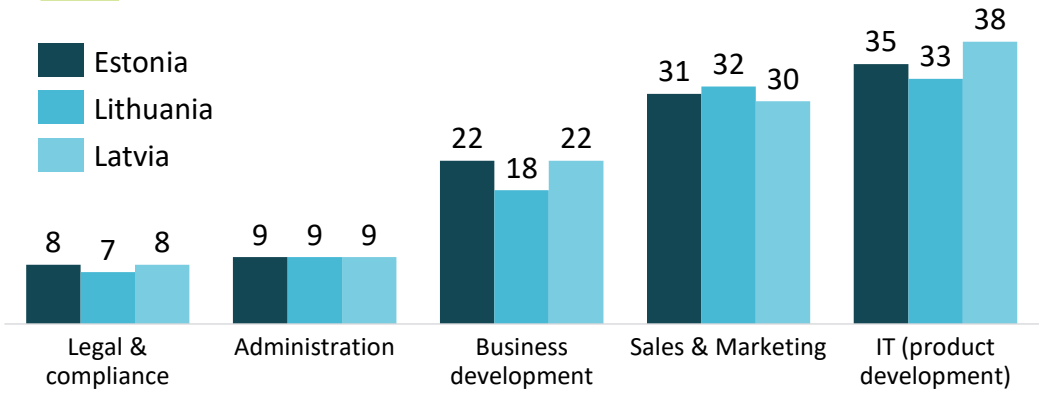


THERE IS LITTLE VARIATION WHEN ALLOCATING FUNDS ACROSS DIFFERENT STARTUP CATEGORIES

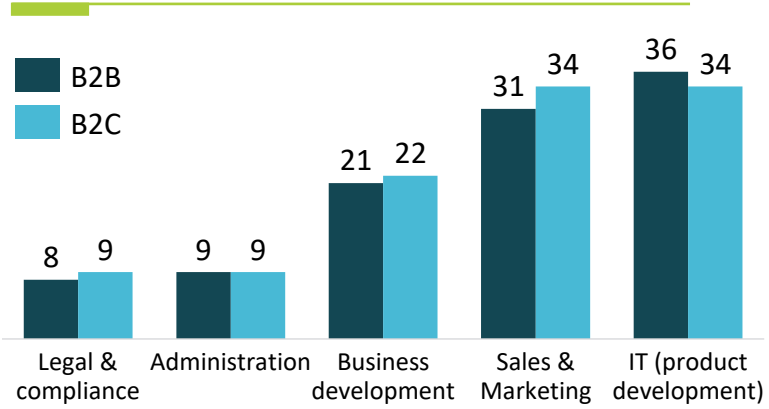
STARTUP SURVEY ANSWERS REGARDING ALLOCATED FUND SPENDING, BY COUNTRY, BUSINESS FOCUS, STAGE, AND SUCCESS

Q18 - Imagine that your company has just raised a certain amount of EUR in the NEXT round of funding. How would you advise the startup to spend the money (% of total sum)?

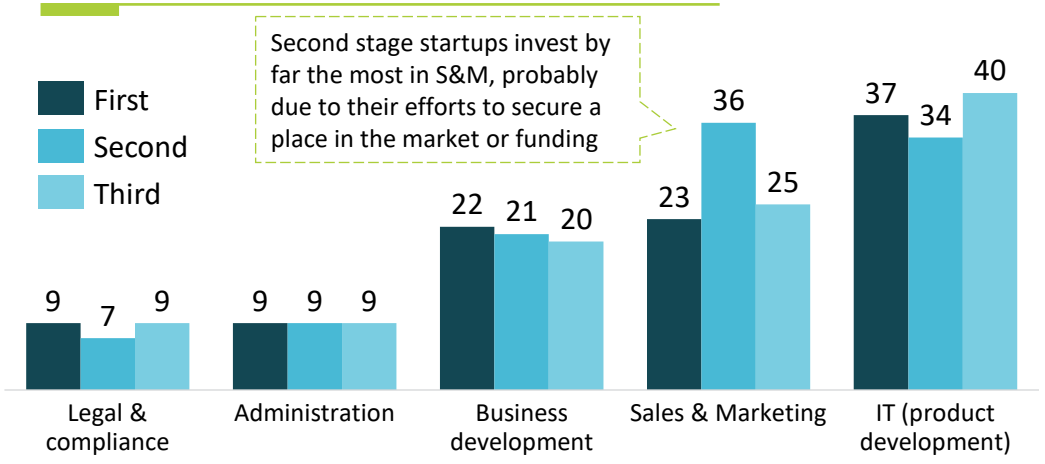
COUNTRIES



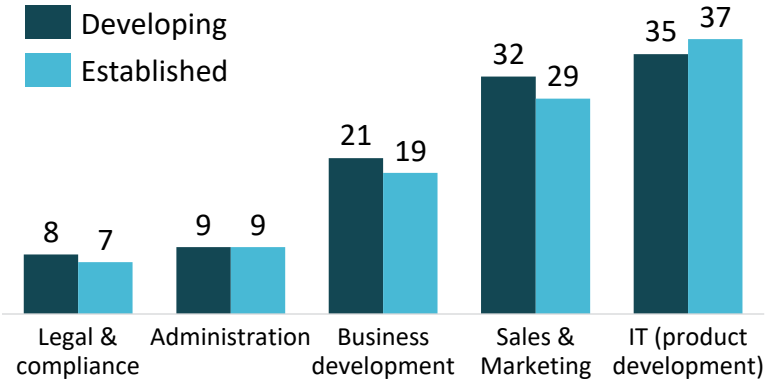
BUSINESS FOCUS



STAGE



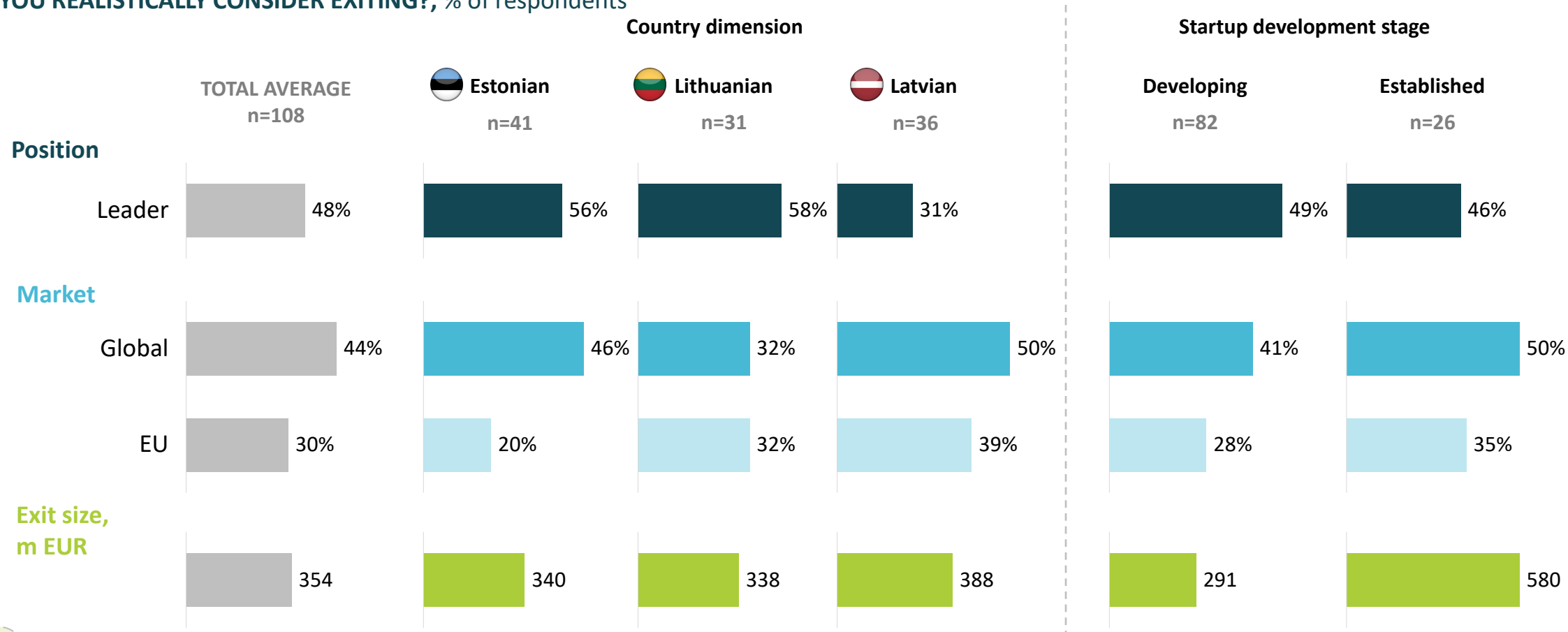
SUCCESS



CIVITTA Source: CIVITTA analysis

AS BALTIC STARTUPS MATURE, THEIR FOCUS SHIFTS FROM A LEADER TO A CHALLENGER ROLE

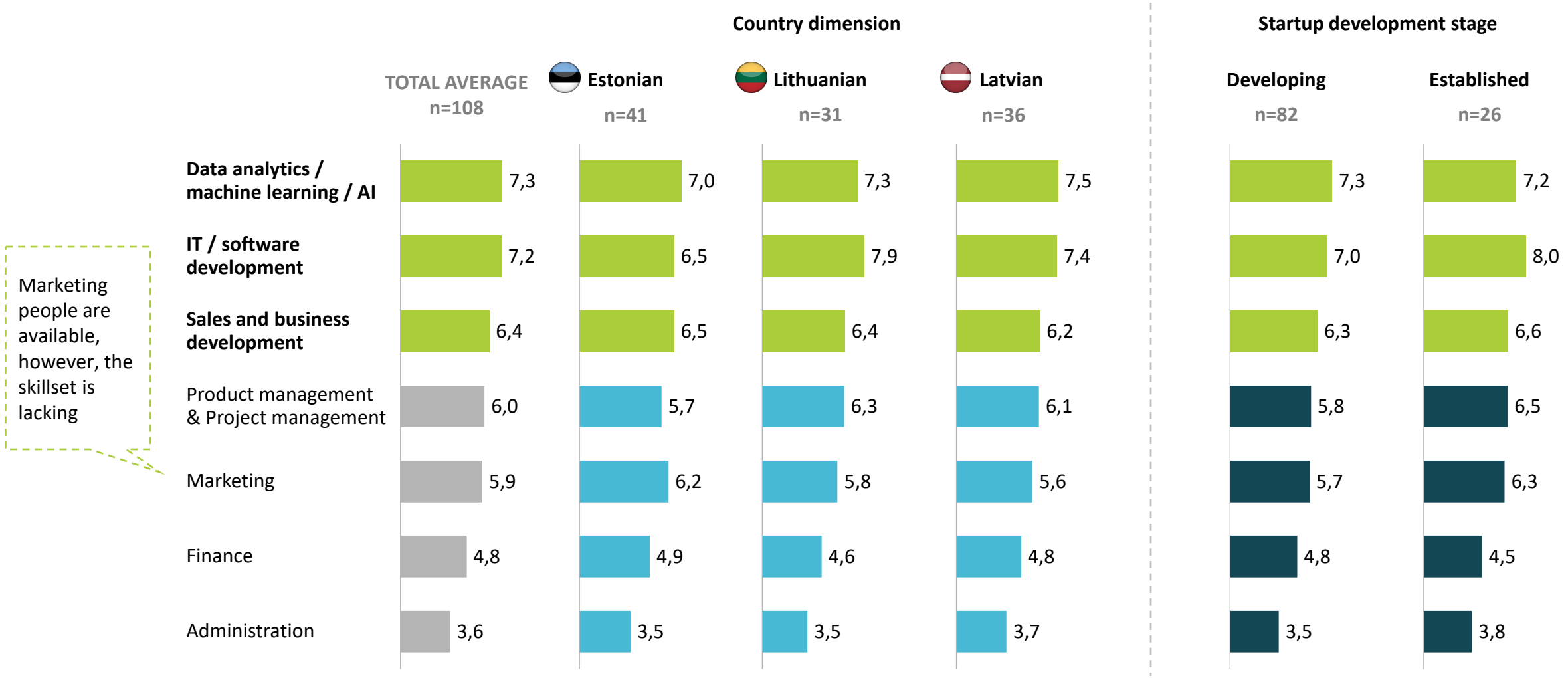
WHAT IS THE DEFINITION OF SUCCESS OF YOUR STARTUP IN TERMS OF MARKET AND POSITION? and **AT WHAT SIZE OF STARTUP WOULD YOU REALISTICALLY CONSIDER EXITING?,** % of respondents



The ambition changes as startups grow and develop; with growth, they focus more on **challenger position** and toward reaching global markets

DATA ANALYTICS AND IT ENGINEERS ARE THE OCCUPATIONS THAT ARE HARDEST TO ATTRACT

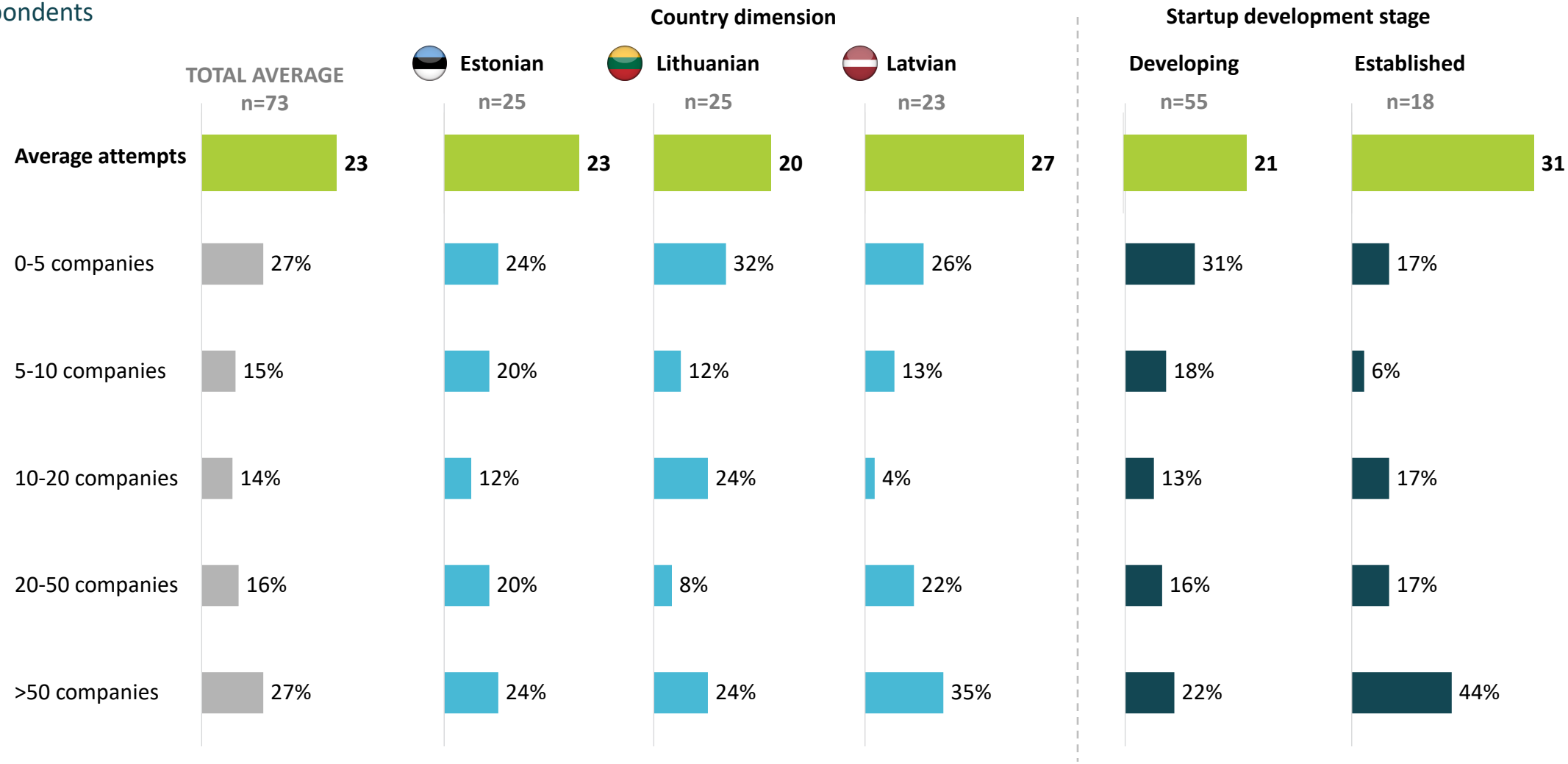
MOST DIFFICULT AREAS FOR FINDING TALENTS FOR STARTUP COMPANIES, (1 – easy, 10 – difficult)



Source: Startup survey answers "HOW DIFFICULT IS IT TO FIND TALENT FOR YOUR COMPANY IN THE FOLLOWING AREAS (1 – EASY, 10 – DIFFICULT)"

IT TAKES MORE THAN 20 ATTEMPTS TO GET FUNDING – MORE PERSISTENT STARTUPS ULTIMATELY GET FUNDED

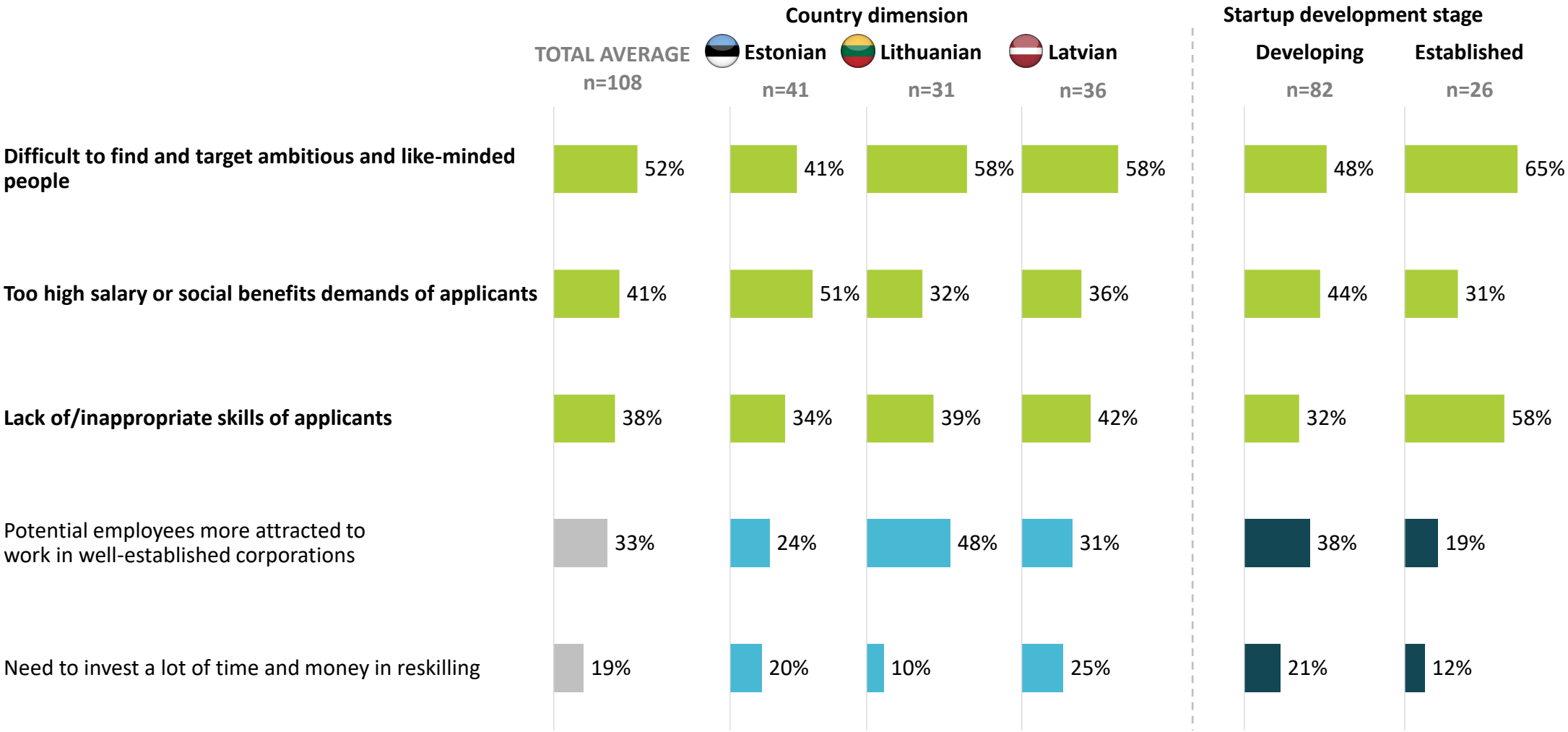
HOW MANY VENTURE CAPITAL FUNDS/ BUSINESS ANGELS/ OTHER FUNDS DID YOU HAVE TO APPROACH TO CLOSE LAST ROUND, % of respondents



CIVITTA Source: Startup survey answers "HOW MANY VENTURE CAPITAL FUNDS/ BUSINESS ANGELS/ OTHER FUNDS DID YOU HAVE TO APPROACH TO CLOSE YOUR LAST ROUND?"

IT IS DIFFICULT TO FIND AMBITIOUS AND LIKE-MINDED PEOPLE, MEET SALARY EXPECTATIONS, OR ENSURE APPROPRIATE LEVEL OF SKILLS

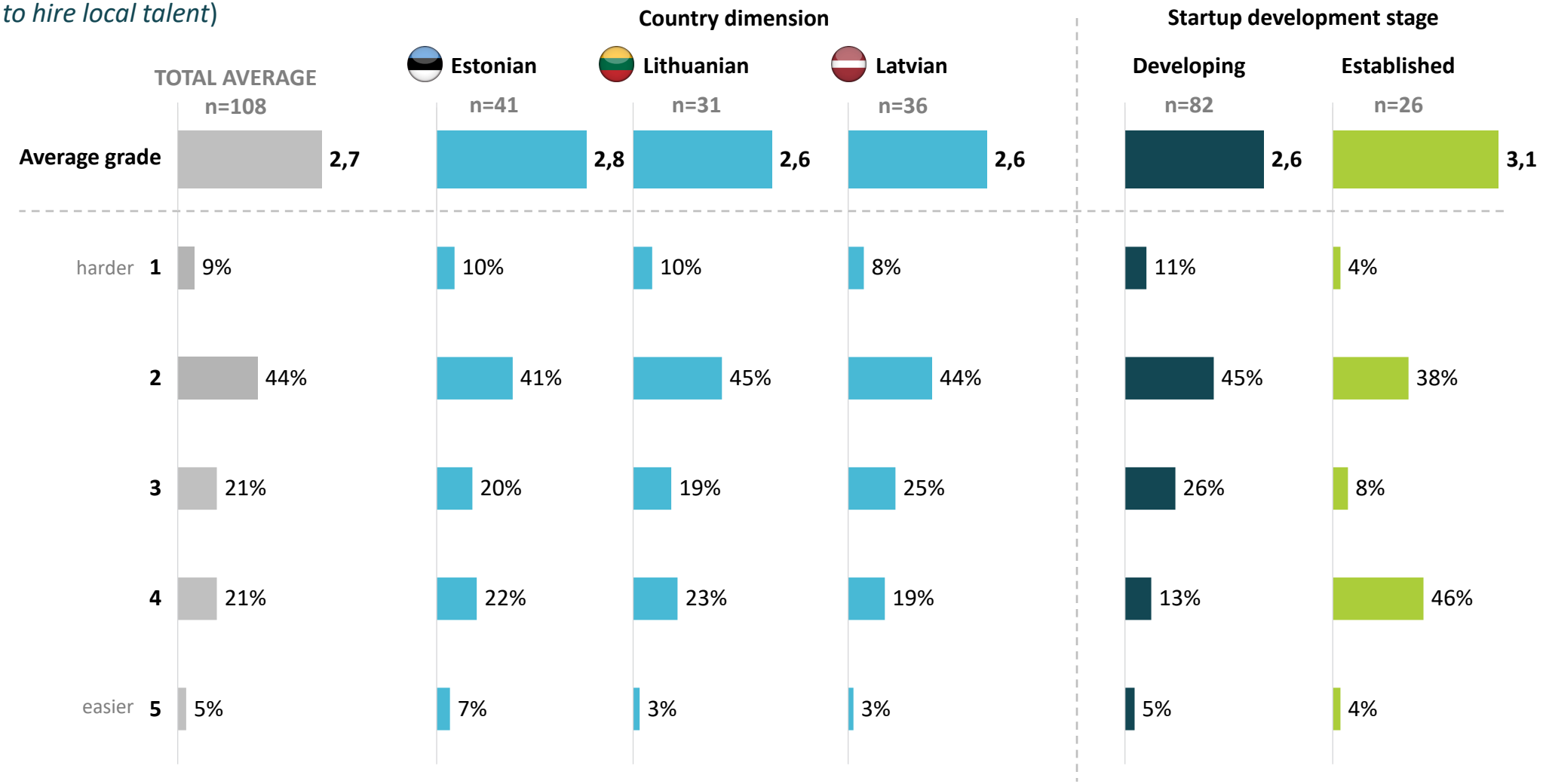
THE DIFFICULTIES STARTUPS FACED WHILE HIRING EMPLOYEES, % of respondents



Source: Startup survey answers "WHAT DIFFICULTIES HAVE YOU FACED WHILE HIRING EMPLOYEES? (STRONGLY AGREE + AGREE)"

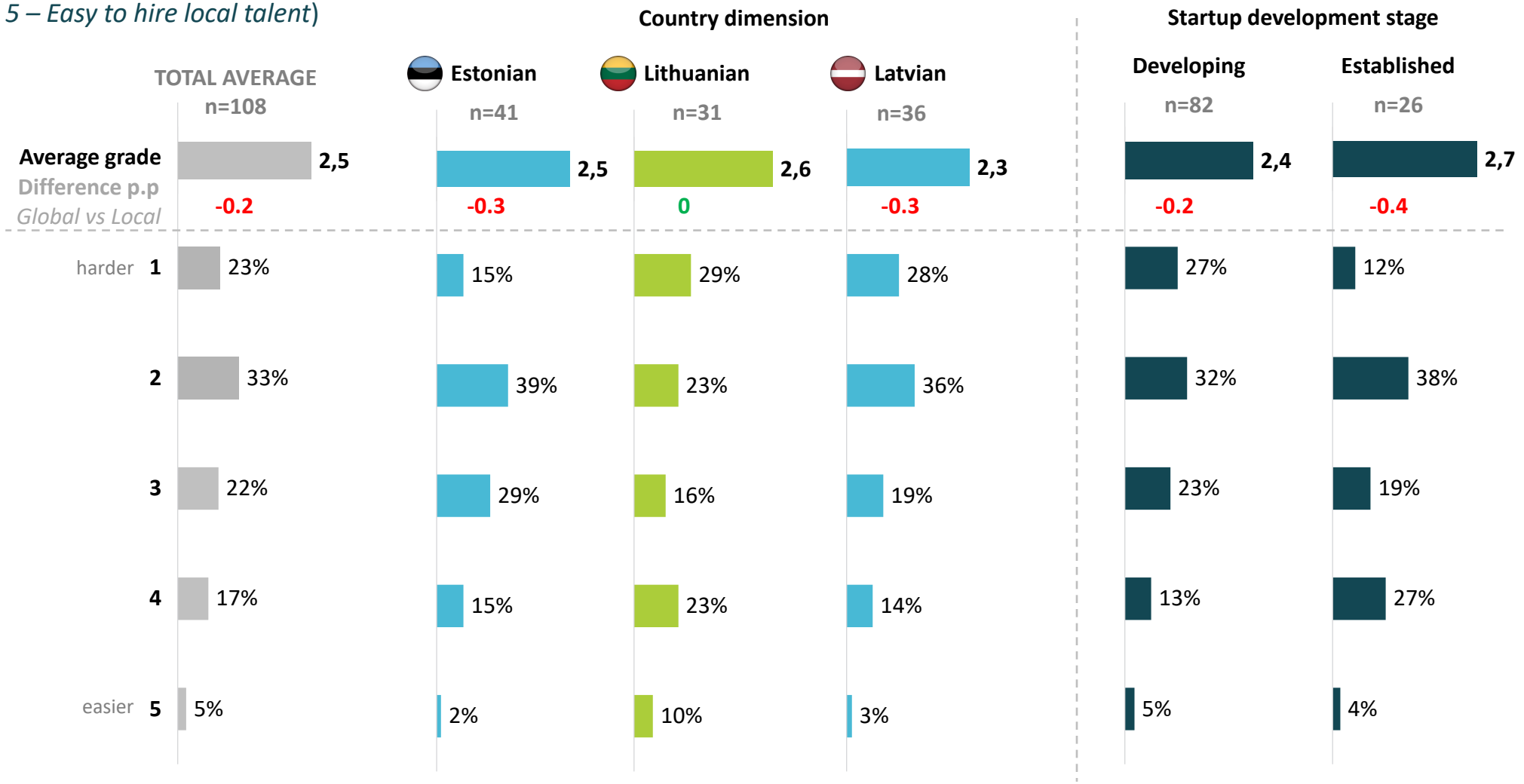
ESTABLISHED STARTUPS FIND IT EASIER TO ATTRACT TOP TALENT FROM CORPORATIONS / STARTUPS ON THE LOCAL MARKET

HOW EASY IS IT TO ATTRACT TOP TALENTS FROM TOP CORPORATIONS / STARTUPS ON THE LOCAL MARKET? (*1 – Struggling to hire local talent, 5 – Easy to hire local talent*)



LITHUANIAN STARTUPS FIND IT EQUALLY DIFFICULT TO ATTRACT BOTH LOCAL AND GLOBAL TALENT

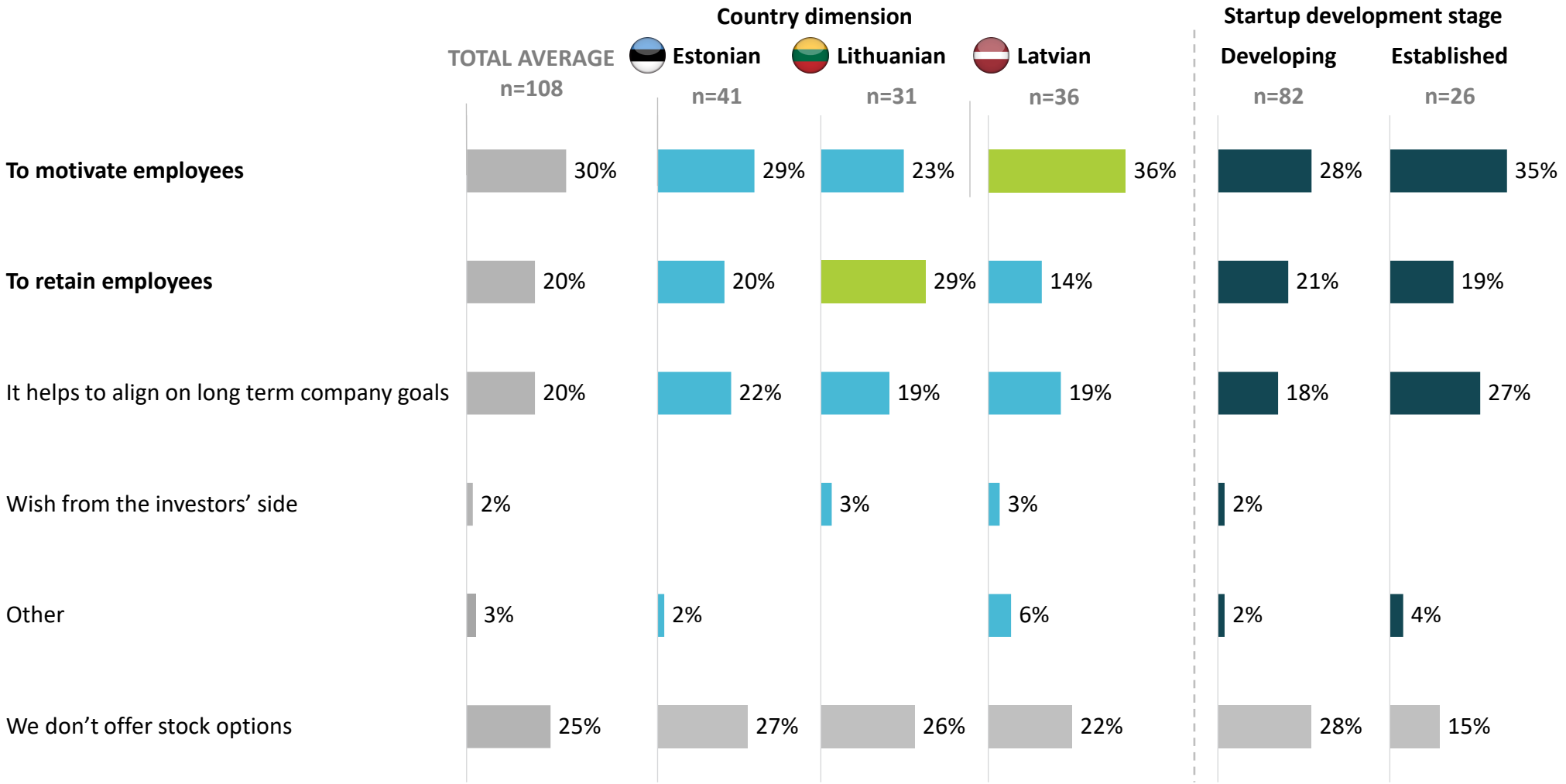
HOW EASY IS IT TO ATTRACT TOP TALENTS FROM TOP CORPORATIONS / STARTUPS ON THE GLOBAL MARKET? (*1 – Struggling to hire local talent, 5 – Easy to hire local talent*)



Source: Startup survey answers: "HOW EASY IS IT TO ATTRACT TOP TALENTS FROM TOP CORPORATIONS / STARTUPS ON THE LOCAL MARKET? (1 – Struggling to hire global talent, 5 – Easy to hire global talent)"

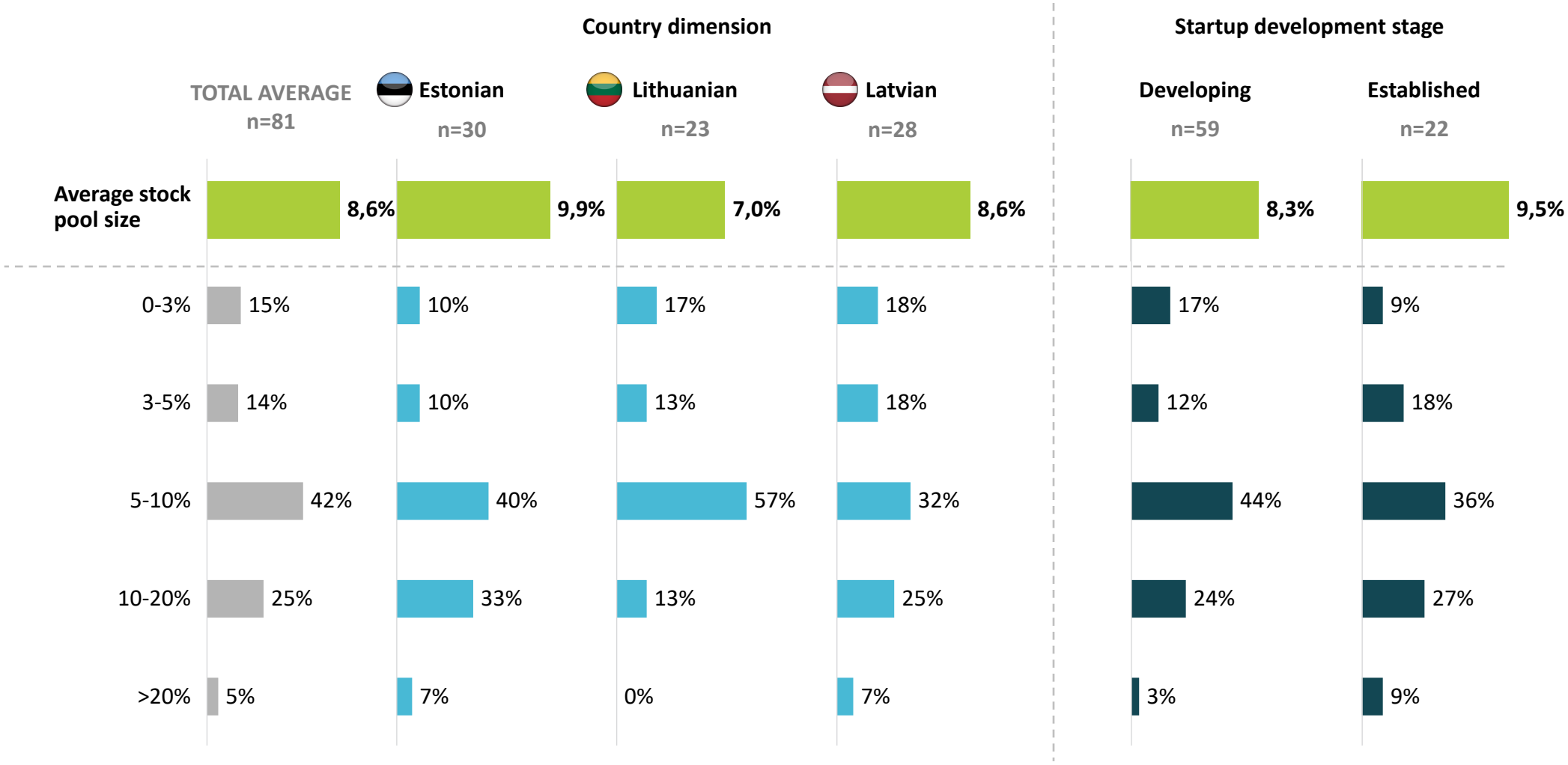
LATVIAN COMPANIES USE STOCK OPTIONS FOR MOTIVATION MORE THAN OTHER COUNTRIES

WHAT IS THE MAIN REASON FOR OFFERING STOCK OPTIONS IN YOUR STARTUP?, % of respondents



AVERAGE STOCK OPTION POOL SIZE IS 8,6%, WITH ESTONIANS HAVING THE BIGGEST POOL

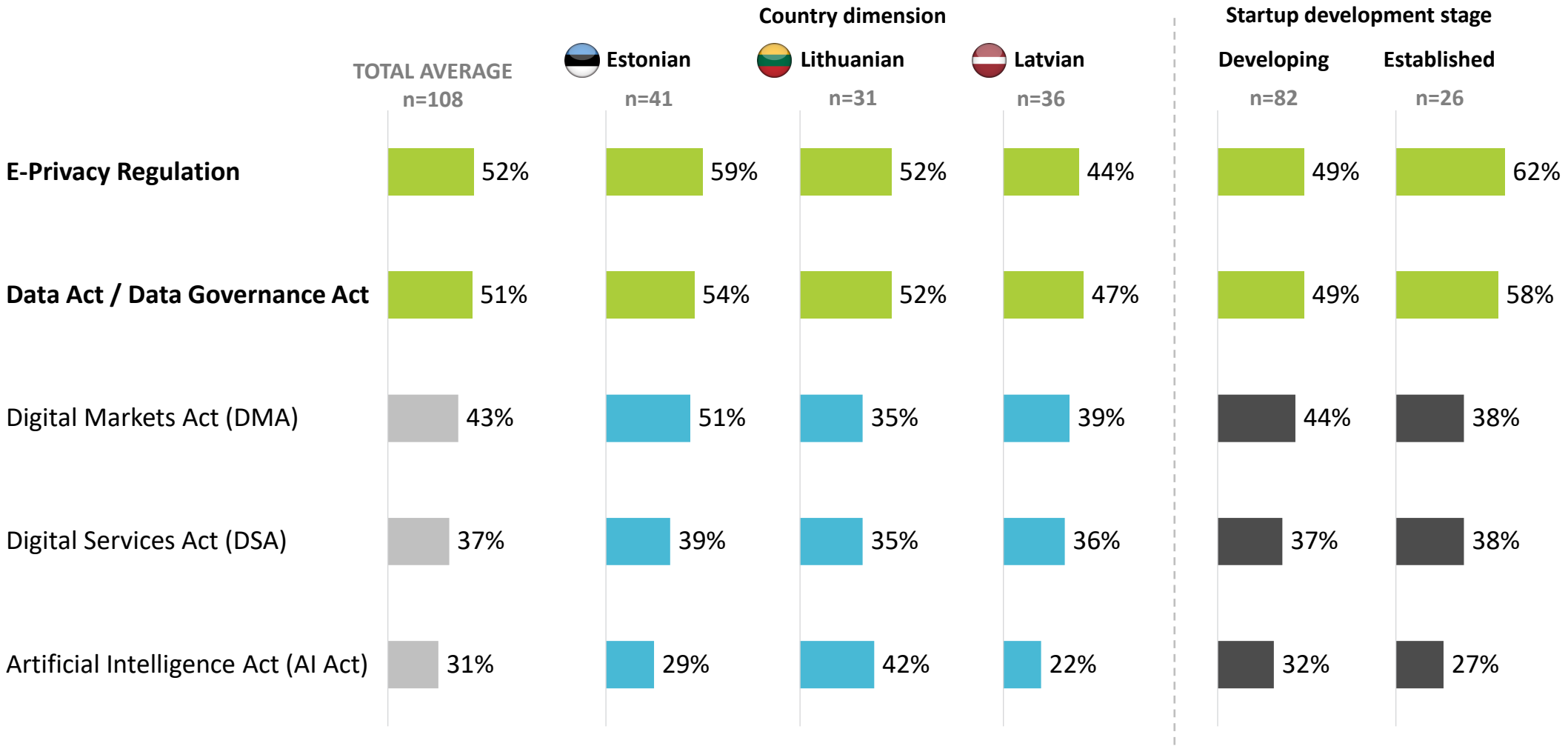
WHAT IS THE EMPLOYEE OPTION POOL SIZE IN YOUR COMPANY?, % of respondents



Source: Startup survey answers: "WHAT IS THE EMPLOYEE OPTION POOL SIZE IN YOUR COMPANY?"

STARTUPS LACK AWARENESS OF POLICIES AND THEIR IMPACT

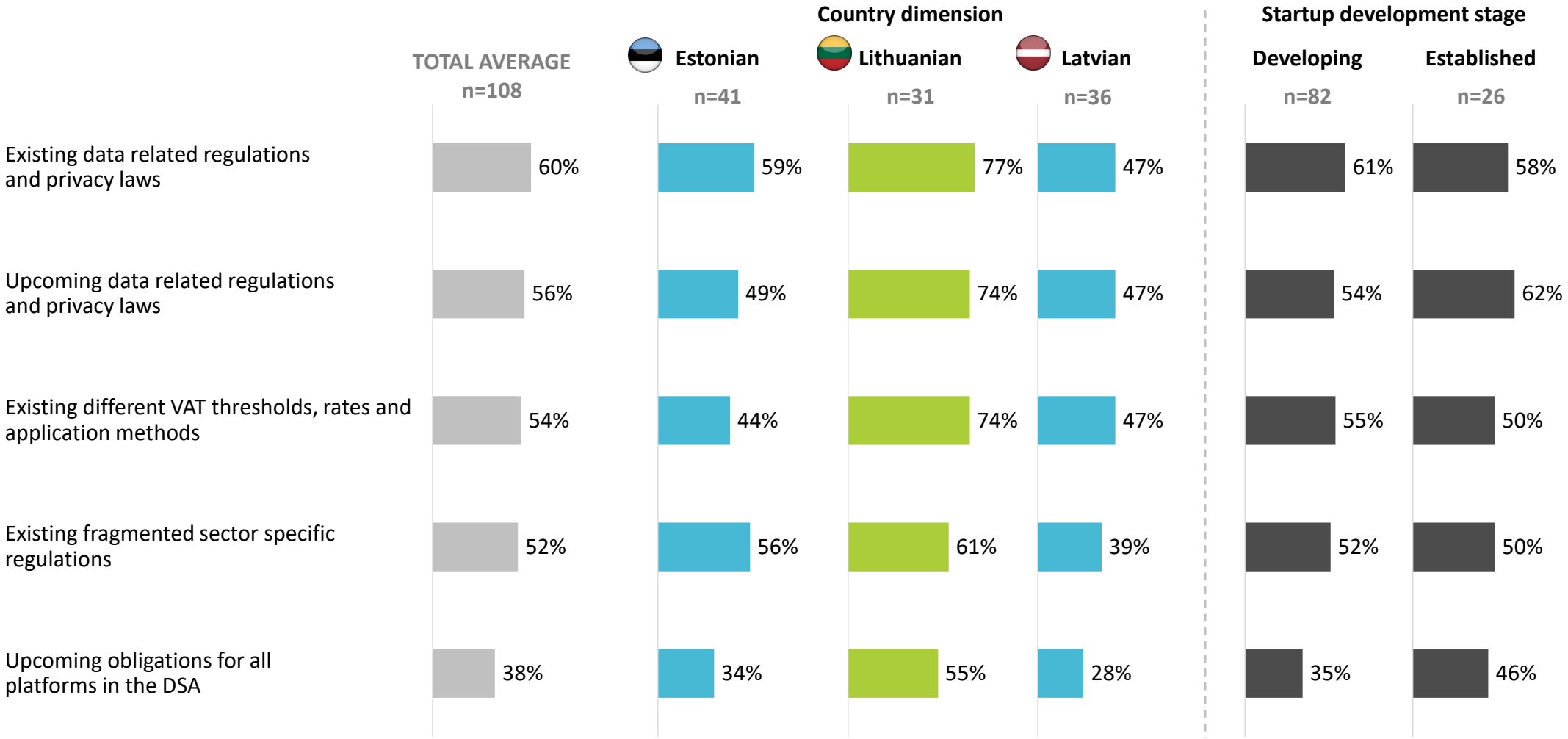
LEGISLATION AWARENESS (I HAVE HEARD OF IT), % of respondents



Source: CIVITTA analysis

COMPLYING WITH EU REGULATIONS IS A CHALLENGE FOR BALTIC STARTUPS

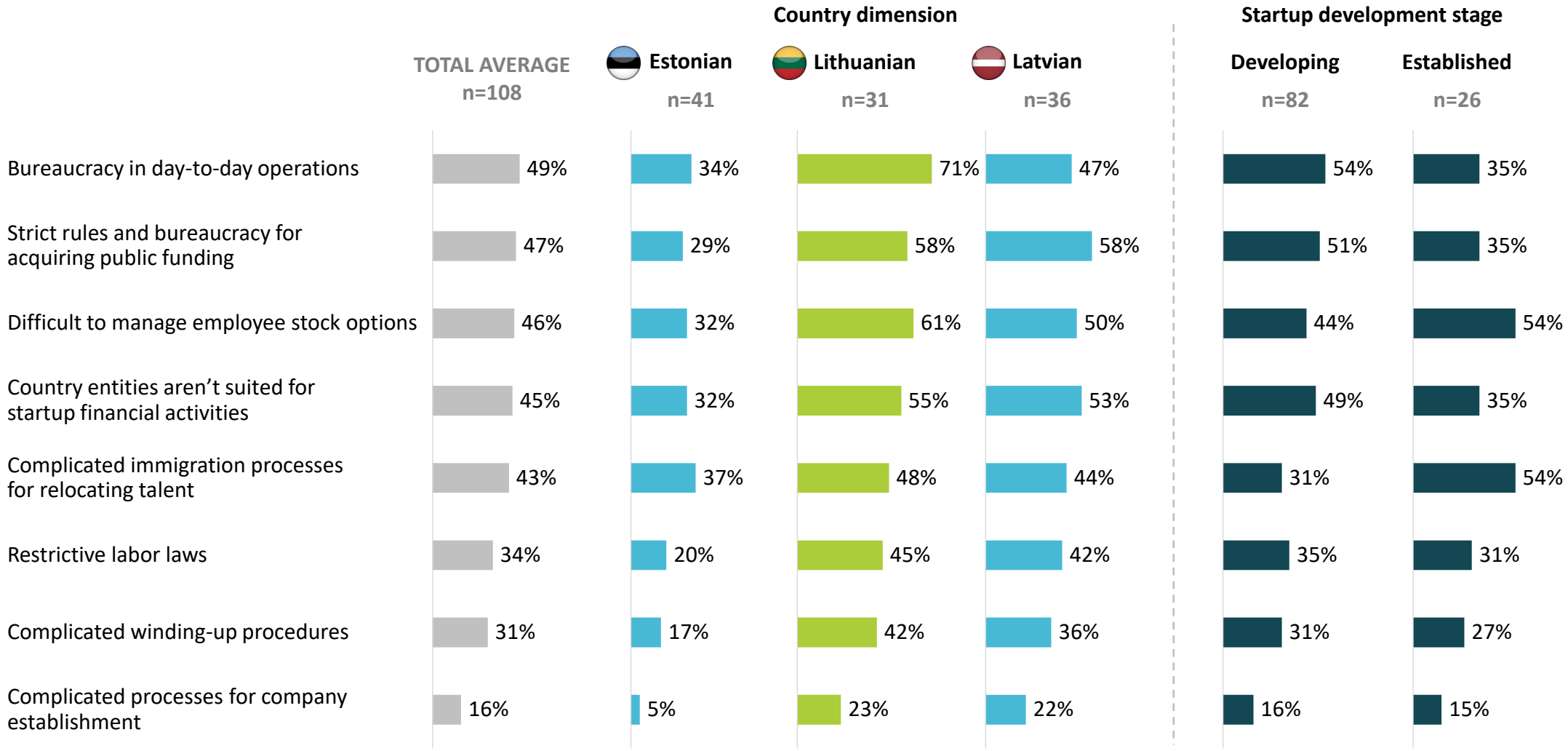
HOW BIG OF A BURDEN IS IT TODAY OR WOULD IT BE IN THE FUTURE FOR YOUR STARTUP TO COMPLY WITH THE FOLLOWING EU REGULATIONS AND NEW CIRCUMSTANCES? MAJOR ISSUE + ISSUE, % of respondents



Source: Startup survey answers "HOW BIG OF A BURDEN IS IT TODAY OR WOULD IT BE IN THE FUTURE FOR YOUR STARTUP TO COMPLY WITH THE FOLLOWING EU REGULATIONS AND NEW CIRCUMSTANCES? MAJOR ISSUE + ISSUE"

LITHUANIAN STARTUPS FEEL SIGNIFICANTLY MORE REGULATORY PRESSURE

HOW RELEVANT ARE THE FOLLOWING LEGAL ISSUES TO YOUR STARTUP? MAJOR + MODERATE ISSUE, % of respondents



Source: Startup survey answers "HOW RELEVANT ARE THE FOLLOWING LEGAL ISSUES TO YOUR STARTUP? MAJOR + MODERATE ISSUE"

Agenda

1. Startups in the Baltics
2. Ecosystem health check
3. Policies & regulations
4. Interviews & survey results
5. **Recommendations**
6. Methodology Note

RECOMMENDATIONS – FOR STARTUPS

STARTING A COMPANY	• **Be resilient.** Building startups is difficult - only a handful of companies succeed. Having a co-founder will double your chance of success. Having a serial co-founder might triple your success rate. • **Follow well known startup development guidelines**: find an area where you are passionate about, hire A-level team, develop a MVP, talk to customers, be prepared to pivot, grow fast and fail fast (if needed!). • Think about **international markets** from the beginning. The most successful startups in the Baltics grew big due to ability to conquer foreign markets. Leverage global digital platforms to achieve growth.
TALENT POOL	• **Hire the most competent team**, use stock options to attract the best talent, and **compensate generously**. When handing out stock options, make sure everyone is educated about their potential value and implications. • **Obtain specific know-how** and people with relevant experience and skills from companies that have been in similar situation before. Having serial founders in your team can double or triple your chance of success. • **Seek mentoring, help, and assistance from serial founders**. Ideally have them as angel investors to unlock connections to VCs, talent, and know-how.
FINANCING	• **Raise venture capital money.** Yes, there are successful startups without VC money, however, if you raise VC money you have 2x higher success rate. • **Ask for introductions** from established and **well-connected startup founders**. Leverage network of startups in the local ecosystem to get intros to VCs. • **Be persistent**. It takes 20-30 meetings with VCs to get funding. Demonstrate results. Startups with a ready product and demonstrated commercial traction will get funded eventually.
NETWORKING AND BUSINESS ENVIRONMENT	• **Share successes and failures within community and learn from others**. Exchanging experiences with others is beneficial. Share and seek advice locally and from international peers to avoid Galapagos syndrome. • **Engage actively in the EU level policymaking process** as it is increasingly defining startup business environment in Europe and globally. Continue leveraging proximity to policy makers on national policies.

Source: CIVITTA analysis

RECOMMENDATIONS – FOR POLICY MAKERS

FUNDING AND FINANCIAL INCENTIVES

- **Provide additional sources for venture capital money**. VC funds in the Baltics are relatively scarce and governments can play an important role in providing initial funds or offering tax and other incentives.
- **Create incentives** for private angel investors to be more active in the ecosystem, such as Co-investment Fund Scheme in Lithuania.
- **Attract prominent international VC funds to establish presence in the Baltics.** This could help close the later stage funds availability gap. Attracting **prominent Accelerator** for top performing industries might significantly contribute.
- Provide funds for **product commercialization**. There are funds for scientific R&D support, however, funds to commercialize products are not as widely available.

TALENT

- **Develop financial incentives (e.g. stipends)** to increase the available talent pool by directing students into areas with shortage of necessary skills. Organize workshops and seminars to educate high-school students about lucrative fields.
- **Create specific training programs** to help startups close the talent gap. For example, establishing a focused tech program or growth hacking / marketing program.
- **Double down on efforts** to attract foreign talent , **such as e-Residency and startup visas**. Invest in long-term infrastructure to retain foreign talent.
- **Create favorable regulatory environment to enable startups to offer stock options** to employees. Options are an important tool especially for small startups to attract the best talent.

DIALOGUE & ENGAGEMENT

- Engage with the startup community more broadly **to hear their view on upcoming EU regulation and regulatory changes. Governments and startups should be informed about upcoming changes**, prepare for them, and provide suggestions on how to shape future regulations.
- **Help startup community in monitoring and engaging with EU policy developments**, just as they are doing on national policy issues.
- Create a **list of all relevant info about VCs and funding sources** to save time for founders when searching for funding.

CIVITTA Source: CIVITTA analysis

Agenda

1. Startups in the Baltics
2. Ecosystem health check
3. Policies & regulations
4. Interviews & survey results
5. Recommendations
6. **Methodology Note**

APPROACH TO DEALROOM DATA CLEANING

STARTUP DEFINITION USED

- Civitta considered a company startup if the following criteria were met:
- Company in the first stages of operations
- Company introduces new idea to the market (i.e., unique product that solves target customer problem) or company introduces new way of doing business to the market (i.e., new business model)
- Company is designed to be scalable and grow fast

ASSESSING COMPANIES

- Civitta manually assigned to four groups Dealroom TOP-100 companies by employee count and TOP-100 companies by total funding attracted in each country (LT, LV and EE), based on the approach described on the previous slide
- The five groups are: verified startup, grown-up startup, non-verified startup, acquired startup and deleted

FIVE ASSESSMENT CATEGORIES

VERIFIED STARTUP

- Company follows the criteria mentioned in STARTUP DEFINITION USED

GROWN-UP STARTUP

- Company was a startup but now it is bigger than majority of traditional startups (FTE more than 200), has high revenue and/or has well-developed operations

NON-VERIFIED STARTUP

- Non-verified startup: smaller companies that do not belong to TOP-100 companies by employee count nor TOP-100 companies by total funding attracted. Civitta did not verify smaller companies; however, they belong to the tailwind that does not significantly affect overall picture

ACQUIRED STARTUP

- Company is a startup that was acquired

DELETED

- Company is a service provider and its main value lies not in the product per se but in employees (e.g., Mediapark, Singleton, CIVITTA, typical IT outsourcing companies). Such companies are typically not designed to be quickly scalable, to start selling services worldwide as it implies high investment into additional, local workforce
- Company focuses its operations solely on the Baltics; however, if the company is very young (established 2019 and later), then geographical focus is justified and the company can still be considered a startup
- Company does not provide new innovative product on the market (e.g., large traditional manufacturer, retailer)
- Company is not aiming to earn profits (e.g., startup support organizations like Enterprise Lithuania, Startup Estonia, LatBAN)
- Company is met in the dataset twice - duplicate entry was deleted

LIST OF GROWN-UPS BASED ON DEALROOM DATA

ESTONIA

COMPANY NAME	INDUSTRY
Coolbet	Gaming
Coincoming	Fintech
Creditstar Group AS	Fintech
Guardtime	Security
Admiral Markets	Fintech
Creditstar Group	Fintech
Pipedrive	Marketing; Enterprise Software
Zego	Fintech
Starship Technologies	Robotics; Transportation
Erply	Fintech; Enterprise Software
Wise	Fintech
Bolt	Food; Transportation
Bondora	Fintech
Adcash	Marketing
Cleveron	Robotics; Transportation
MILREM	Security
toggl	Enterprise Software
Creative Mobile	Gaming;media
SK ID Solutions	N.A.
Ridango	Transportation
Viseven	Media; Marketing
Veriff	Security; Fintech
Mooncascade	Enterprise Software
CV Kerkus	Jobs Recruitment
Skeleton Technologies	Energy
Katana	Fintech; Enterprise Software
Tahe Outdoors	Sports

LITHUANIA

COMPANY NAME	INDUSTRY
Trafi	Transportation
Vinted	Fashion
Game Insight	Gaming
Kilo Health	Health; Wellness Beauty
Hostinger	Hosting
TransferGo	Fintech
Paysera LT	Fintech
Mailerlite	Marketing
Omnisend	Marketing
CGTrader	Media; Enterprise Software
Tesonet	Security; Enterprise Software

LATVIA

COMPANY NAME	INDUSTRY
Safecrypt	Security
Sun Finance	Fintech
AGroup	Jobs Recruitment
MÁDARA	Wellness Beauty
Printify	Marketing; Enterprise Software
Evolution Gaming	Gaming
Mogo Finance	Fintech
4finance	Fintech
Printful	Fashion; Marketing
Zabbix	Media; Enterprise Software
Mintos	Fintech
Twino	Fintech
MolPort	Health
X Infotech	Security; Fintech
Lokalise	Enterprise Software
Transact Pro	Fintech
Vendon	Food; Enterprise Software
Mobilly	Fintech
Capitalia	Fintech
Uzdevumi	Education
Files.fm	Enterprise Software
MoneyExpress	Fintech

\ SOCIAL & ENVIRONMENTAL IMPACT – SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a **universal call to action to end poverty**, **protect the planet**, and **ensure that by 2030 all people enjoy peace and prosperity**

End poverty in all its forms everywhere

End hunger, achieve food security and improved nutrition and promote sustainable agriculture

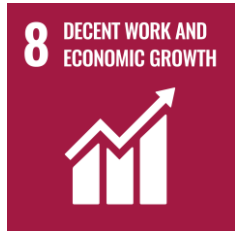
Ensure healthy lives and promote well-being for all at all ages

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Achieve gender equality and empower all women and girls

Ensure availability and sustainable management of water and sanitation for all

Ensure access to affordable, reliable, sustainable and modern energy for all



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Reduce inequality within and among countries

Make cities and human settlements inclusive, safe, resilient and sustainable

Ensure sustainable consumption and production patterns

Take urgent action to combat climate change and its impacts

Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Protect and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, land degradation and biodiversity loss

Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

CIVITTA Source: UNDP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