

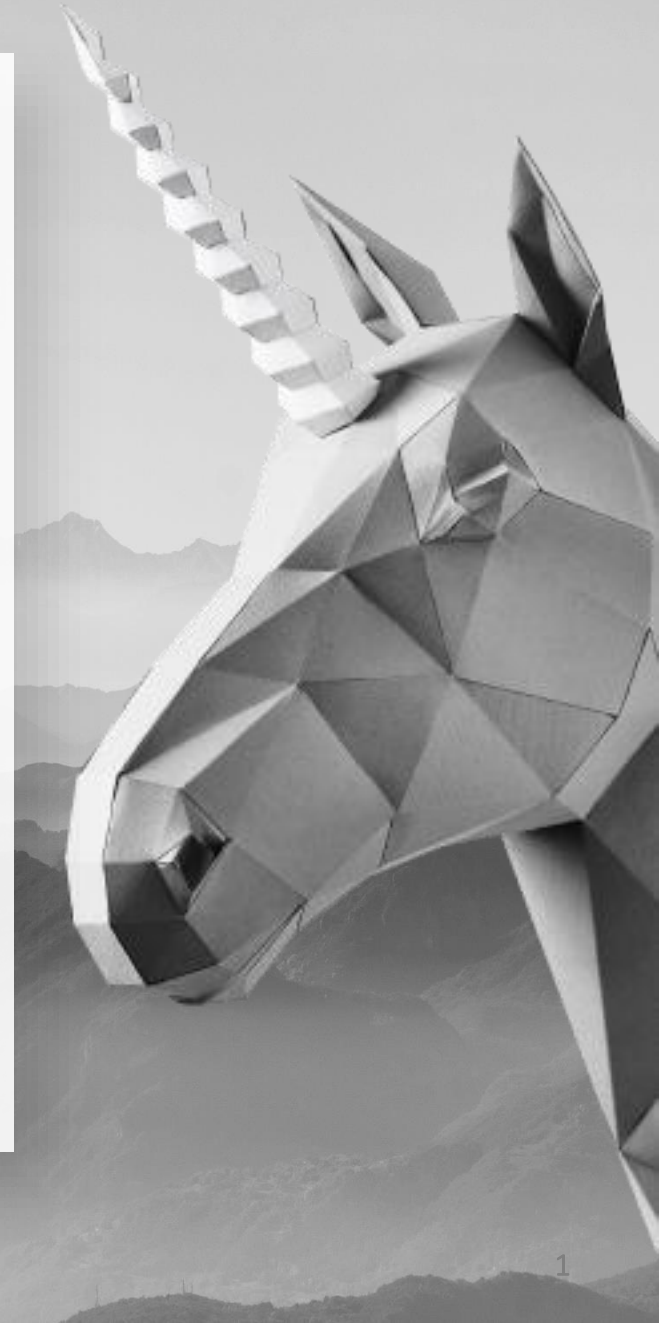
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The Baltic Startup Scene Up-Close: Today's Realities, Tomorrow's Possibilities

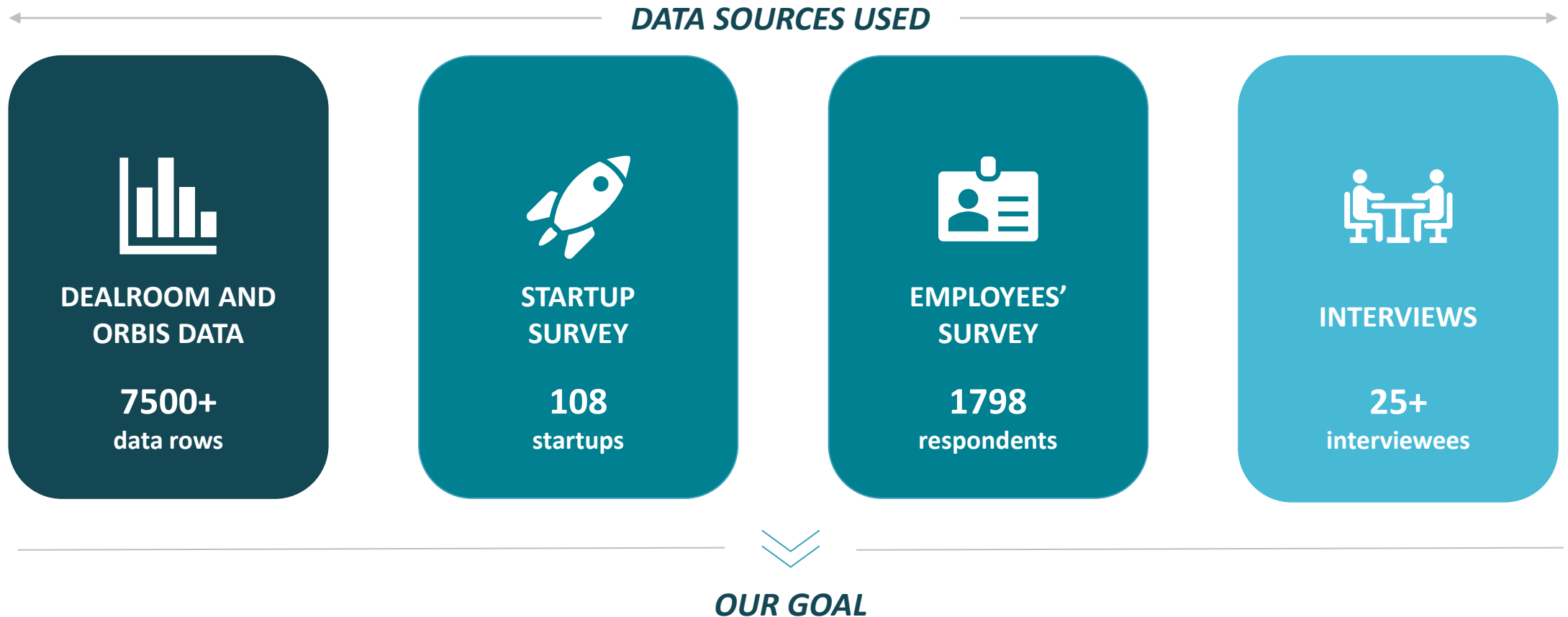
October 2022



\ AGENDA

1. INTRODUCTION
2. ECOSYSTEM IN NUMBERS AND ECONOMIC IMPACT
3. STARTUP SUCCESS RATE
4. CHALLENGES FACED BY STARTUPS
5. CHALLENGE 1 – TALENT
6. CHALLENGE 2 – FUNDING
7. REGULATORY ENVIRONMENT
8. CONCLUSIONS

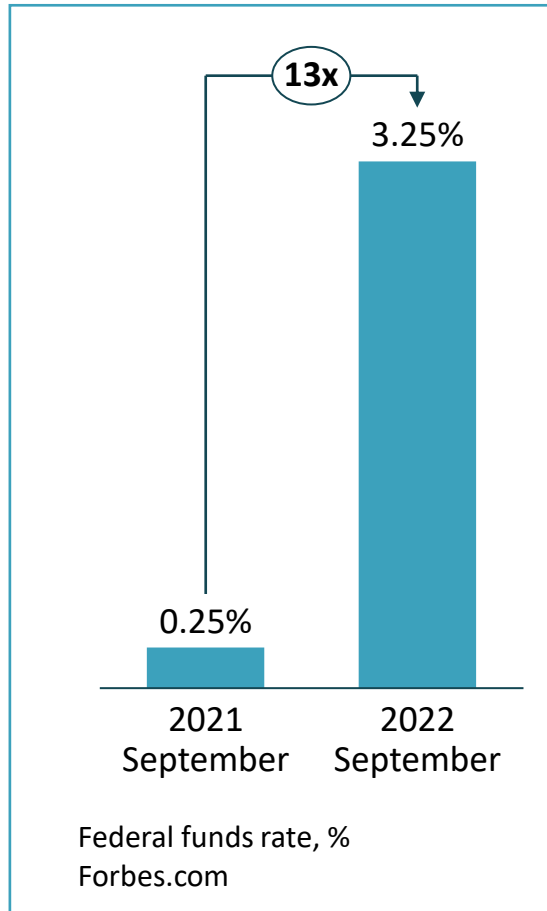
\ CIVITTA CONDUCTED A STUDY ON STARTUP ECOSYSTEM IN THE BALTICS



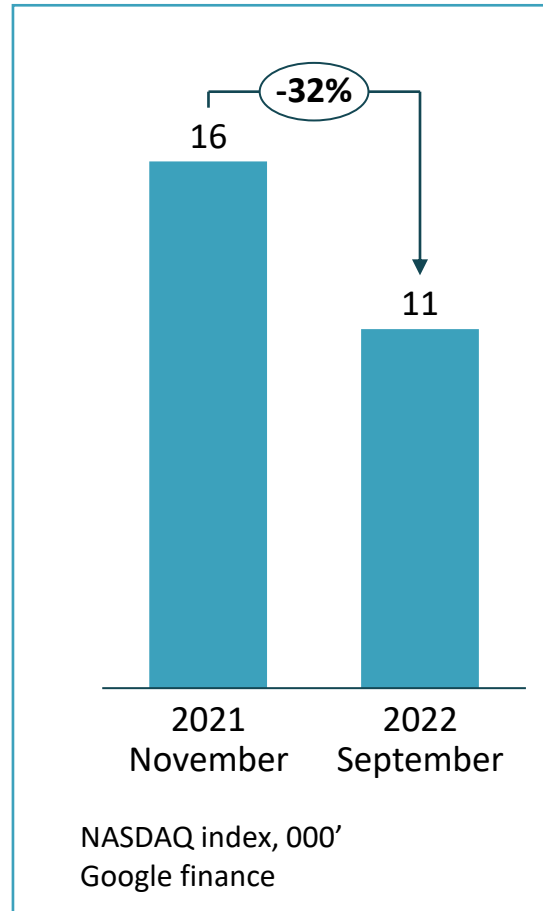
ASSESS THE BALTIC STARTUP ECOSYSTEM'S HEALTH, MEASURE ITS ECONOMIC IMPACT AND EXPLORE WAYS TO MAKE IT BIGGER

\ WE NEED TO TAKE INTO ACCOUNT DIFFICULT ECONOMIC REALITIES WE FACE TODAY

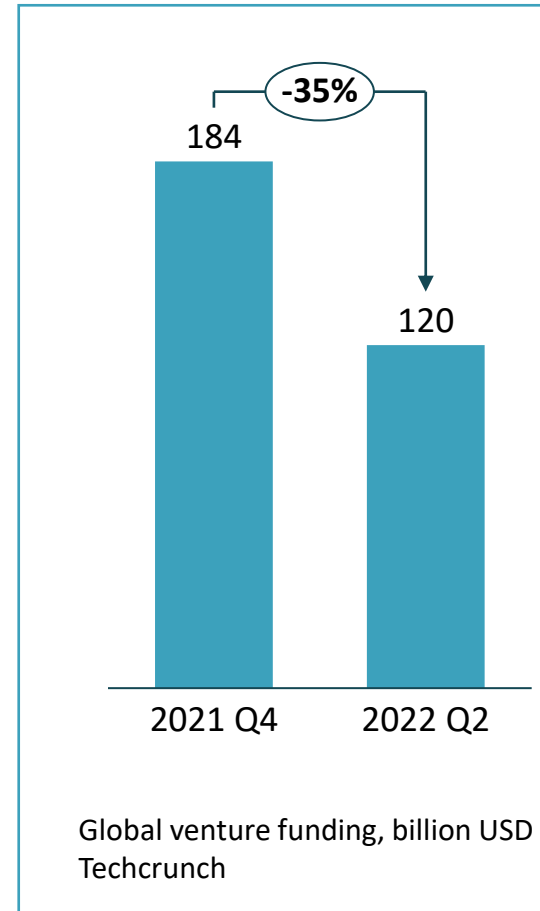
The FED is raising interest rates to fight inflation...



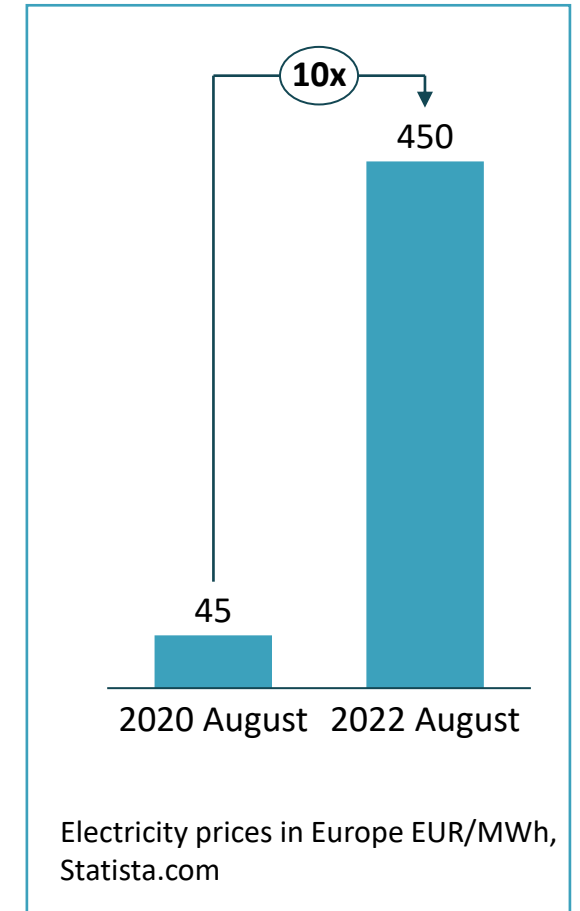
Tech company valuations are declining...



Venture funding is slowing down...



Russian war is causing energy prices to soar



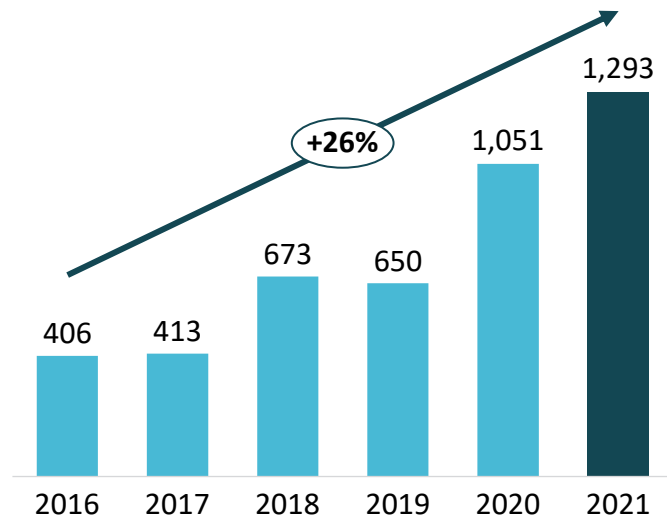
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\ THE BALTIC REGION HAS SHOWN TREMENDOUS GROWTH IN NUMBER OF STARTUPS

TOTAL NUMBER OF STARTUPS IN THE REGION, 2016-21

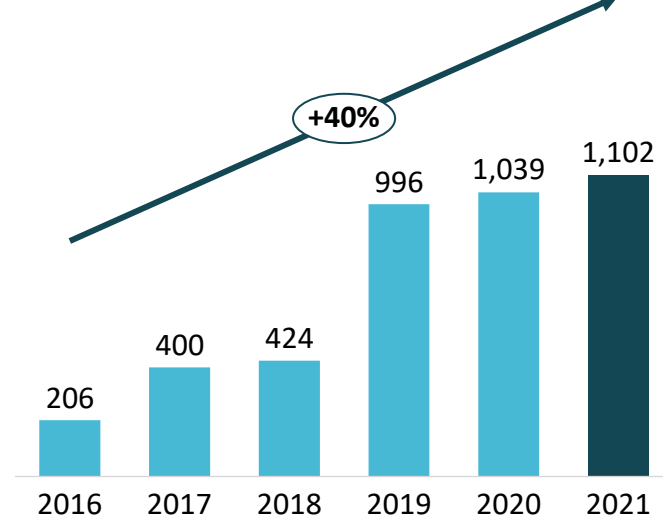
ESTONIA



10 unicorns



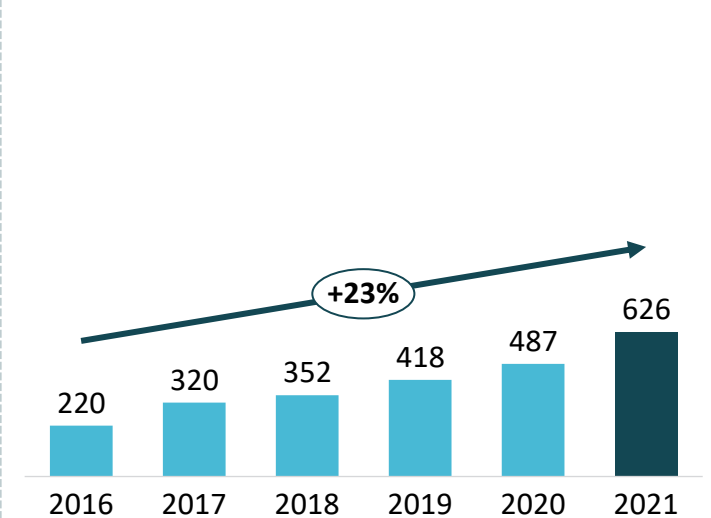
LITHUANIA



2 unicorns



LATVIA

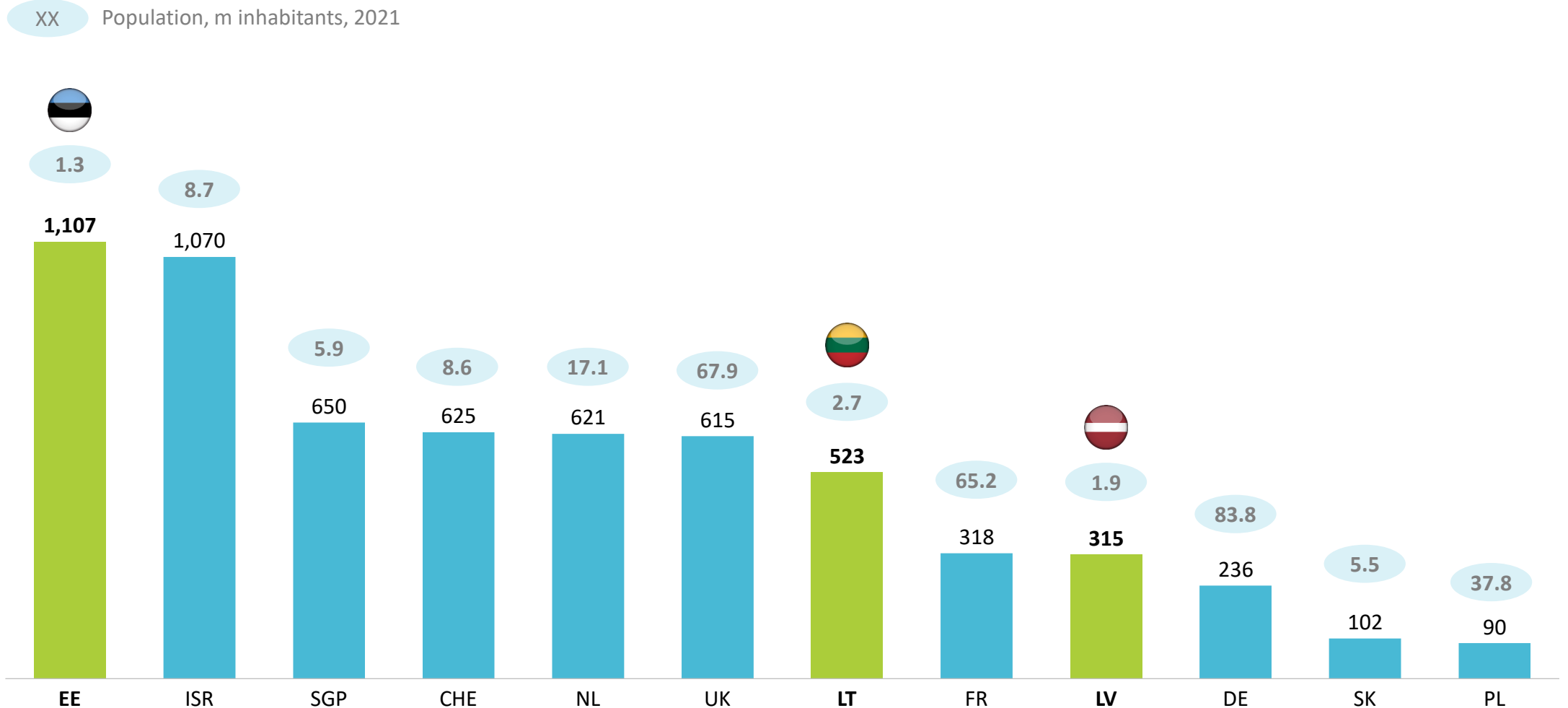


1 unicorn



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

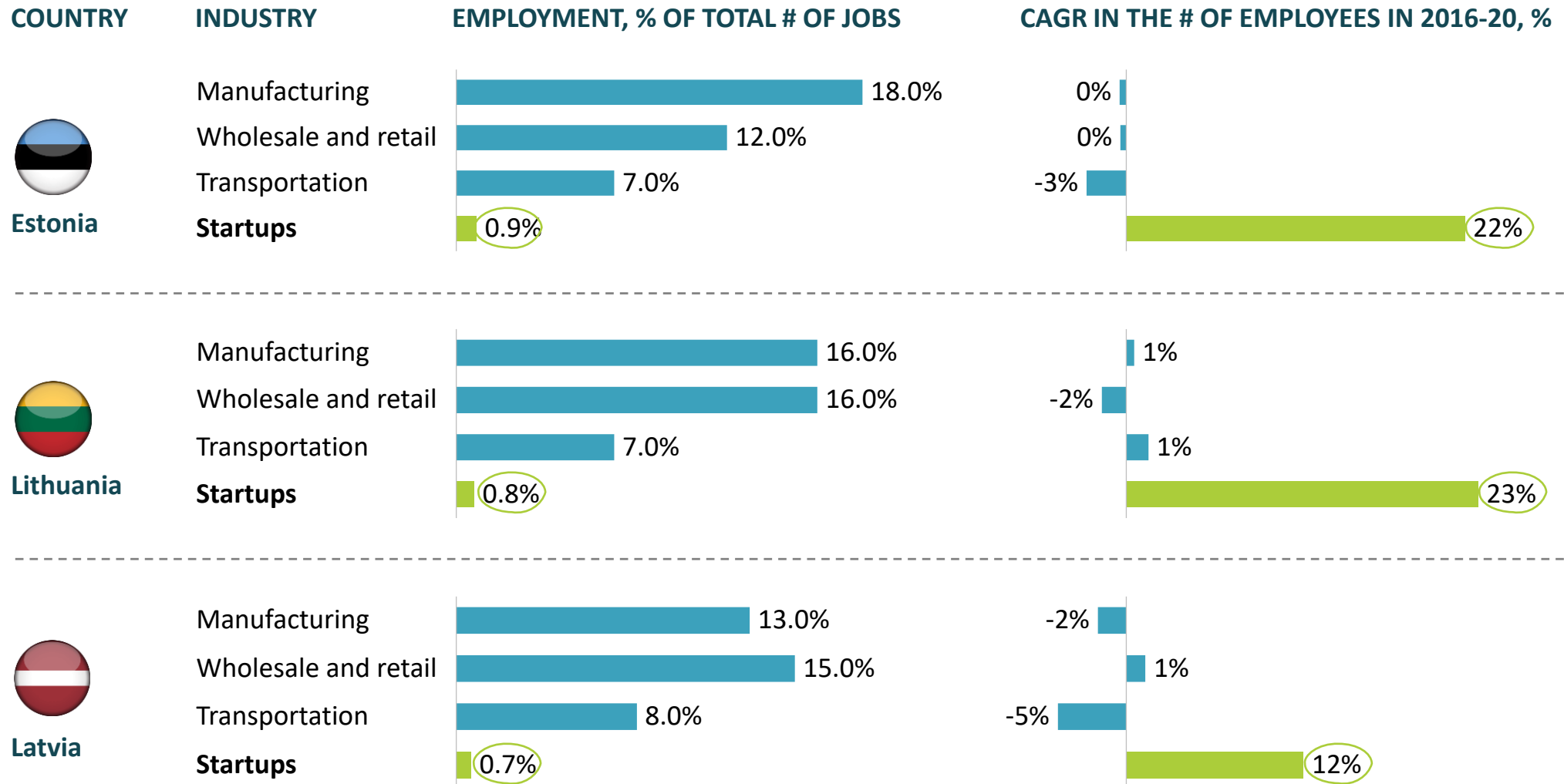
NUMBER OF STARTUPS PER 1 M INHABITANTS BY COUNTRY, 2021



\ BALTIC STARTUPS ARE CREATING POSITIVE ECONOMIC IMPACT

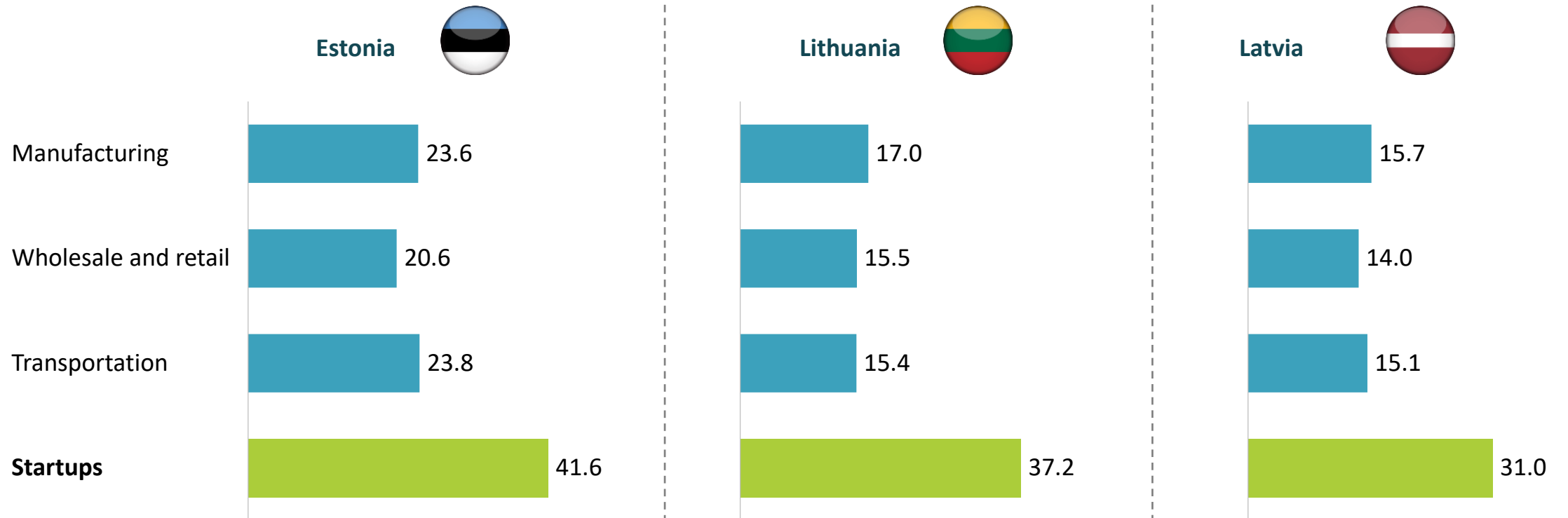
ECONOMIC IMPACT, 2021		 Estonia	 Lithuania	 Latvia*
EMPLOYMENT	# of employees	8,200	13,200	6,000
COMPANIES' REVENUE	annual EUR m	1,400	1,800	450
TAXES	annual EUR m	125	200	25
SALARY LEVEL	Gross annual salary all taxes included, EUR VS average salary	41,600 x1.9	37,000 x1.8	31,000 x1.7
INVESTMENTS	annual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

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



\ SALARIES IN STARTUPS TEND TO BE TWICE THE NATIONAL MEDIAN WAGE

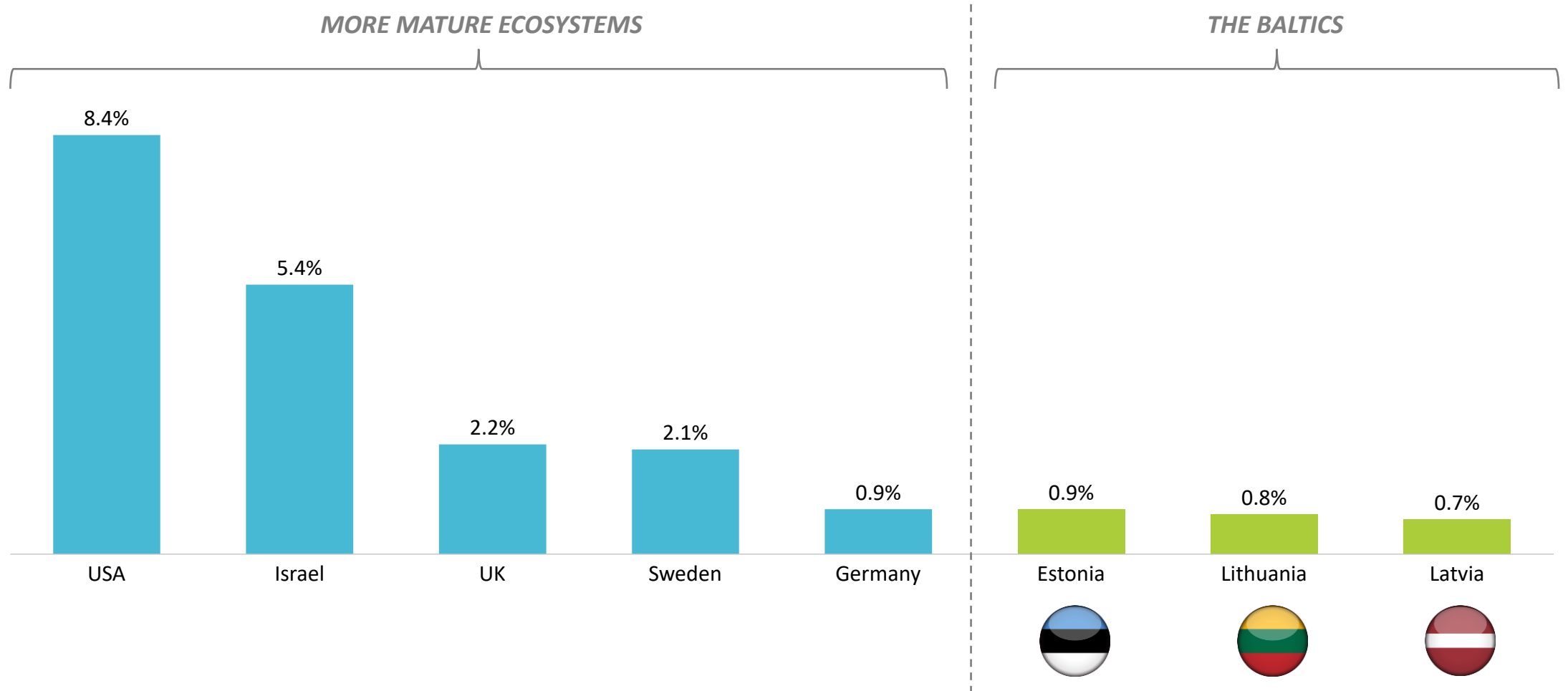
GROSS ANNUAL SALARIES ALL TAXES INCLUDED, EUR K



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

\ THE BALTIC STARTUP POTENTIAL FOR EMPLOYMENT IS PARAMOUNT

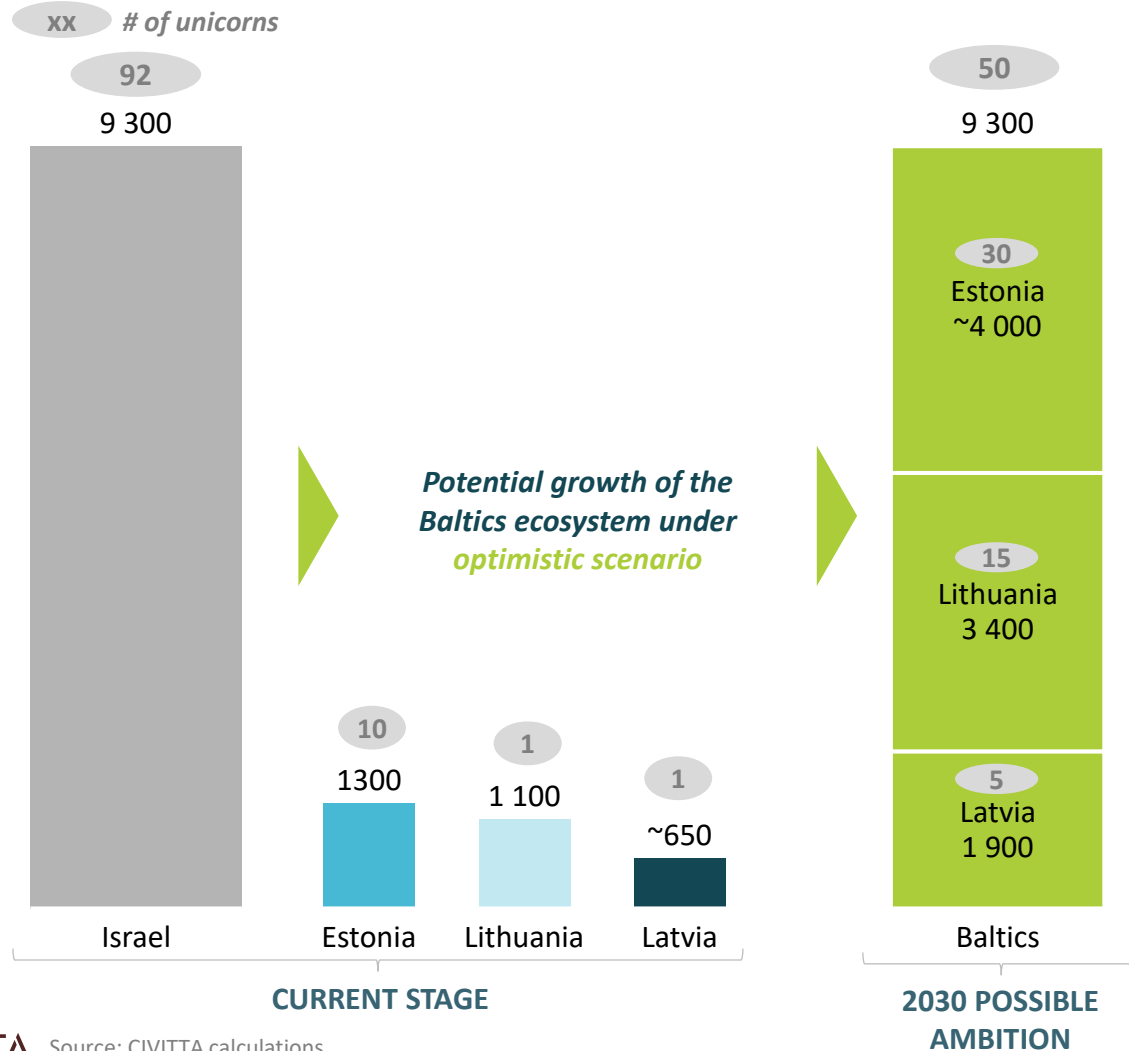
EMPLOYMENT IN STARTUPS AND TECH COMPANIES, % OF TOTAL JOBS IN THE COUNTRY, 2020



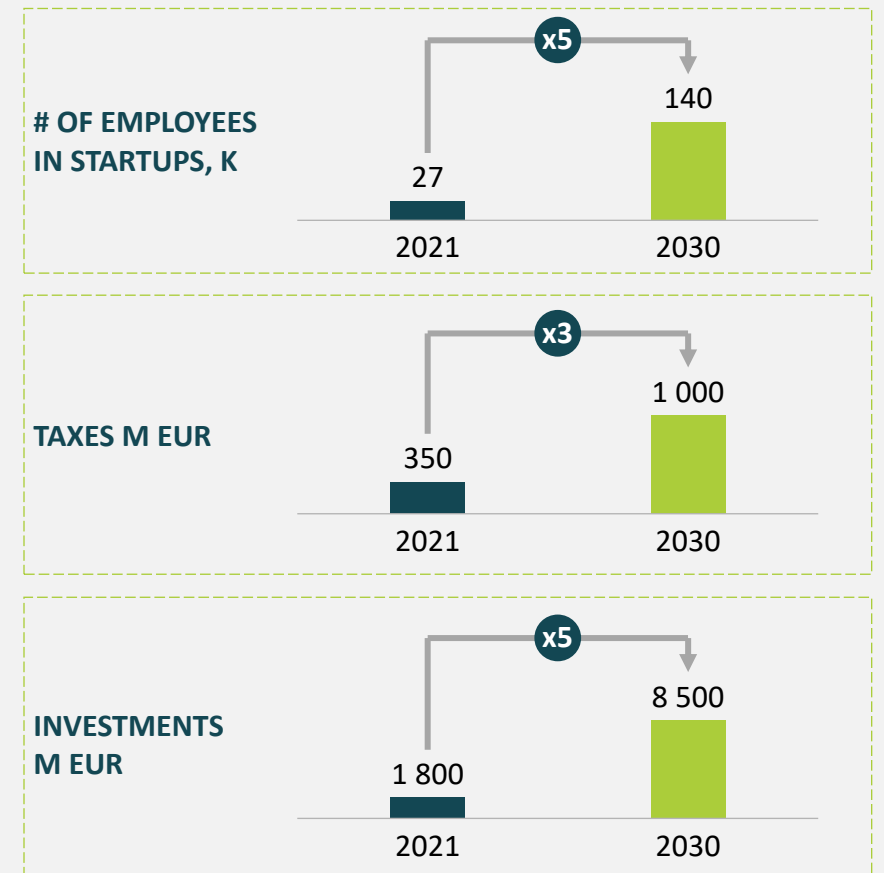
\ REACHING ISRAEL LEVEL TODAY WOULD MEAN 5+ TIMES HIGHER ECONOMIC IMPACT

POTENTIAL GROWTH OF THE BALTICS STARTUP ECOSYSTEM

Number of startups



Potential economic impact on the Baltic economies

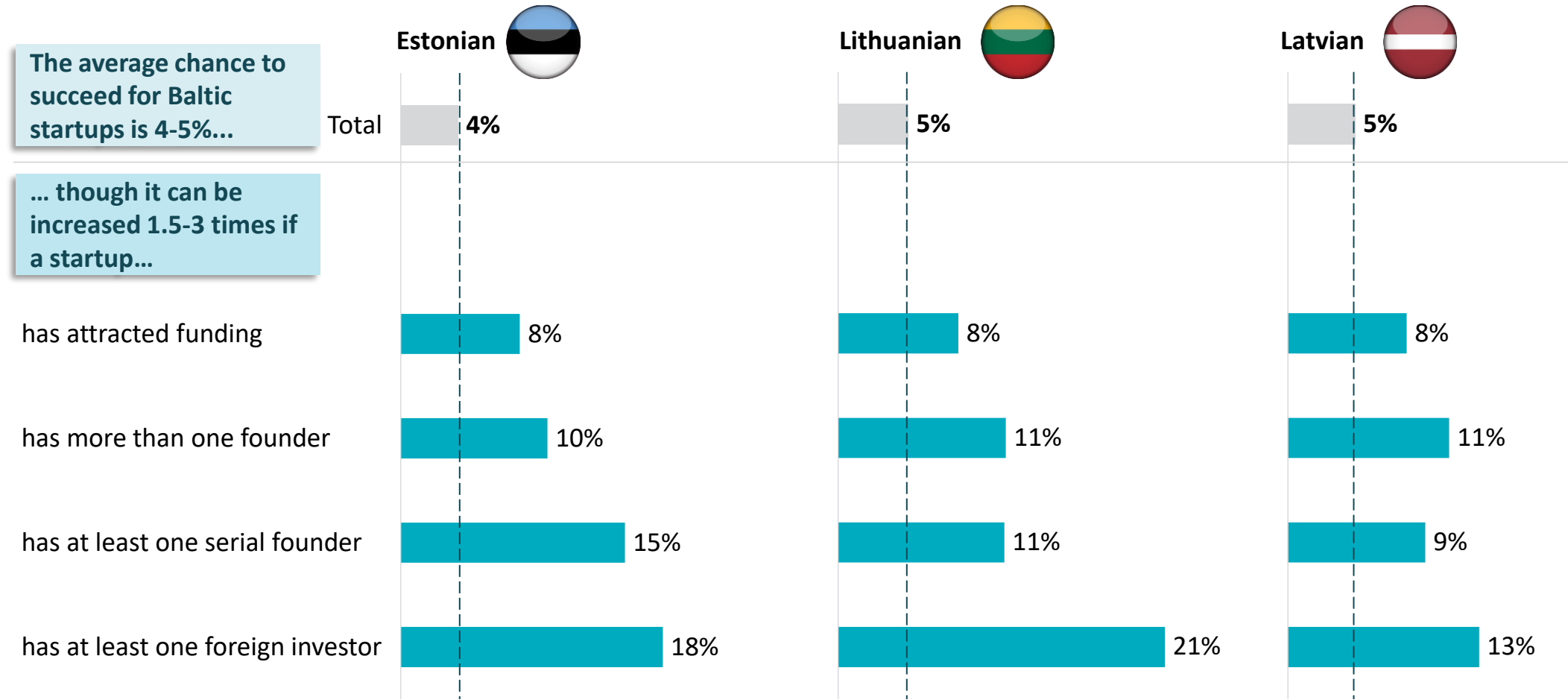


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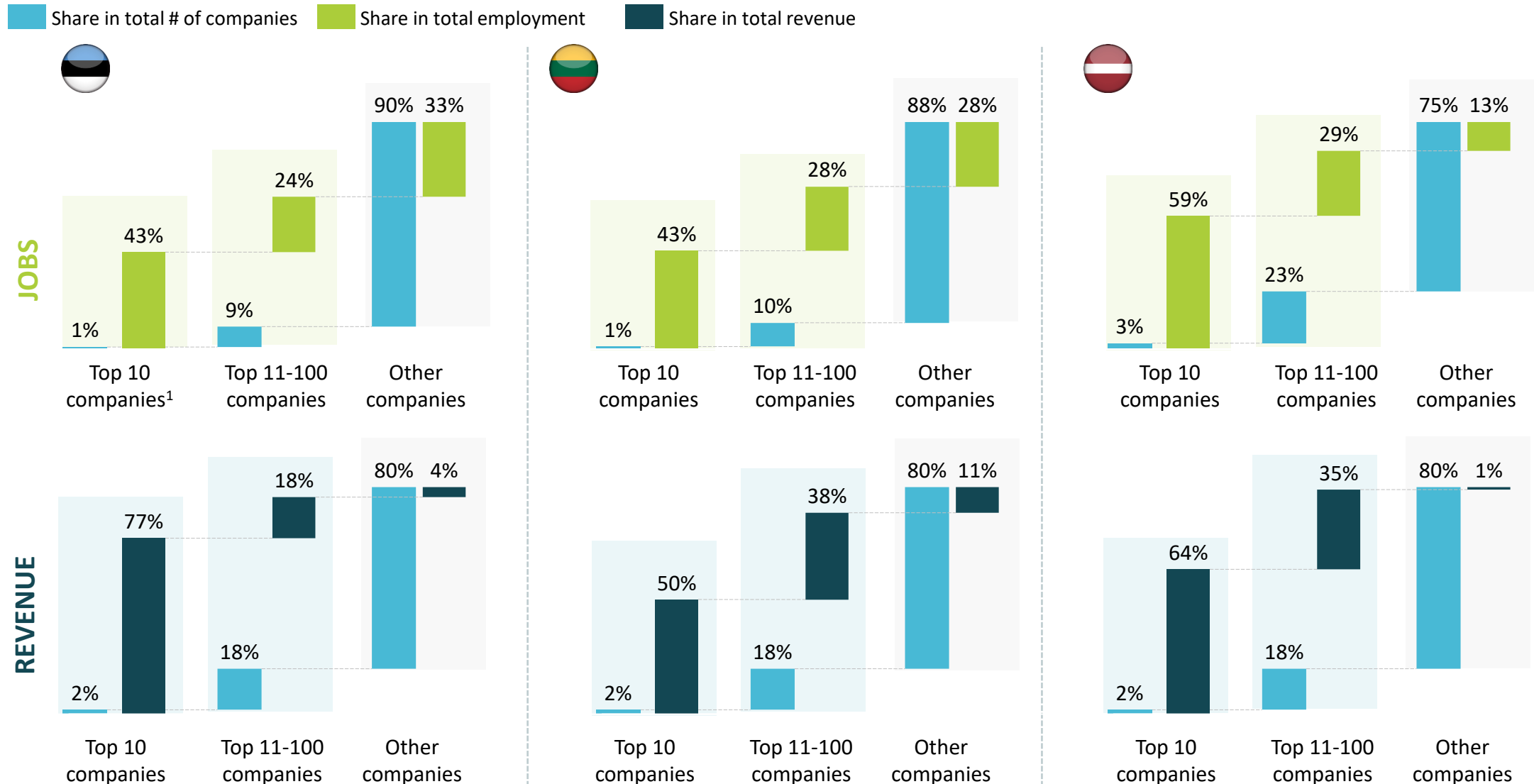
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\ BUILDING STARTUPS IS DIFFICULT

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



MAJORITY OF ECONOMIC VALUE IS CREATED BY A HANDFUL OF LARGE STARTUPS

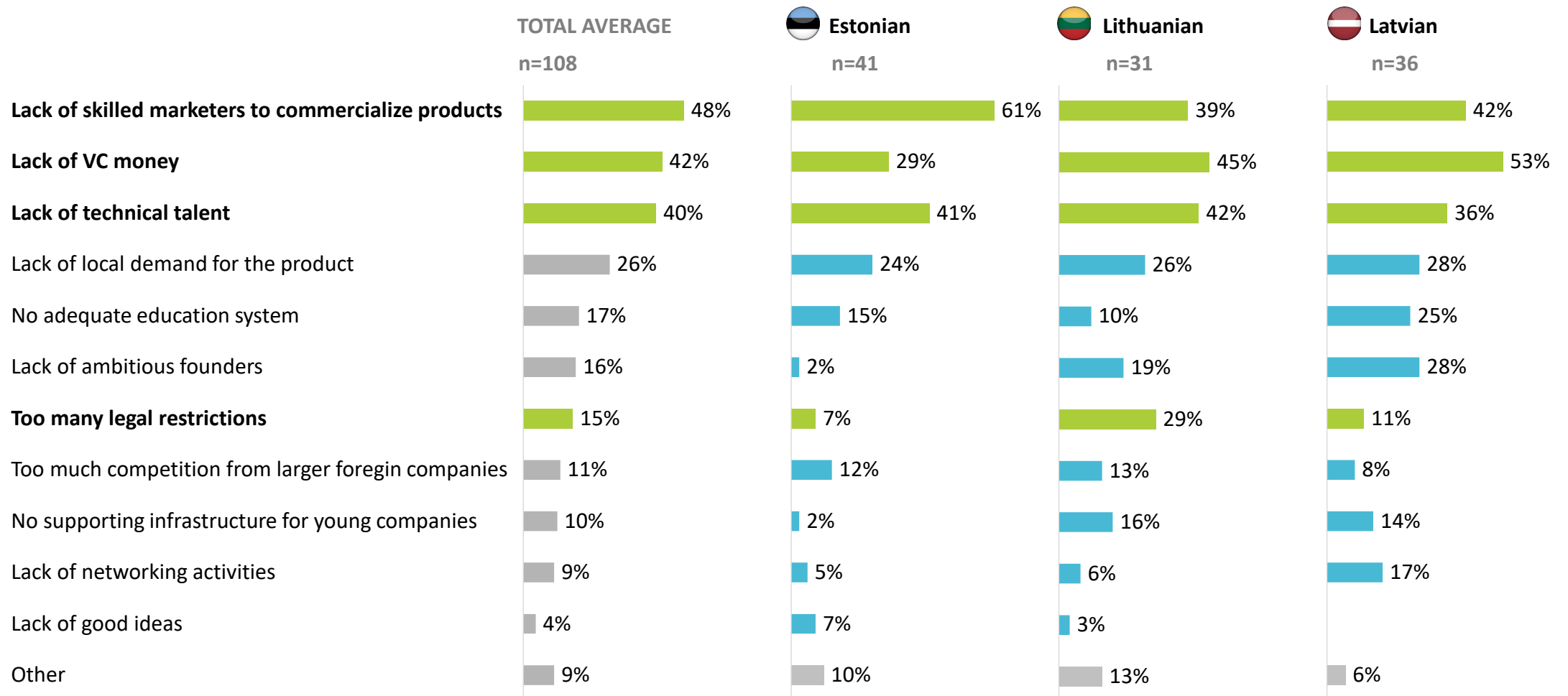


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MAJOR CHALLENGES FOR STARTUPS: LACK OF SKILLED MARKETERS, VENTURE CAPITAL AND LACK OF TECHNICAL TALENT

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

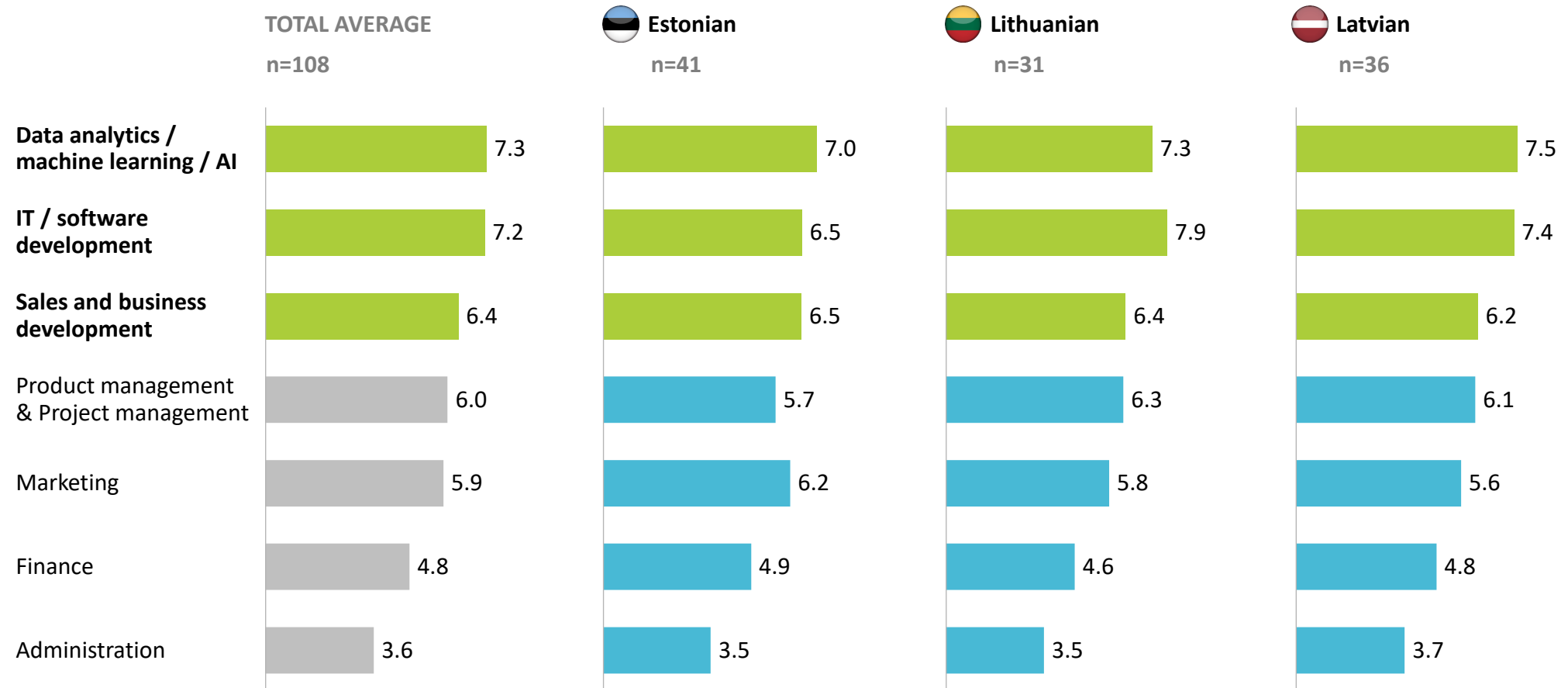


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\ DATA ANALYTICS AND IT ENGINEERS ARE THE OCCUPATIONS THAT ARE HARDEST TO ATTRACT

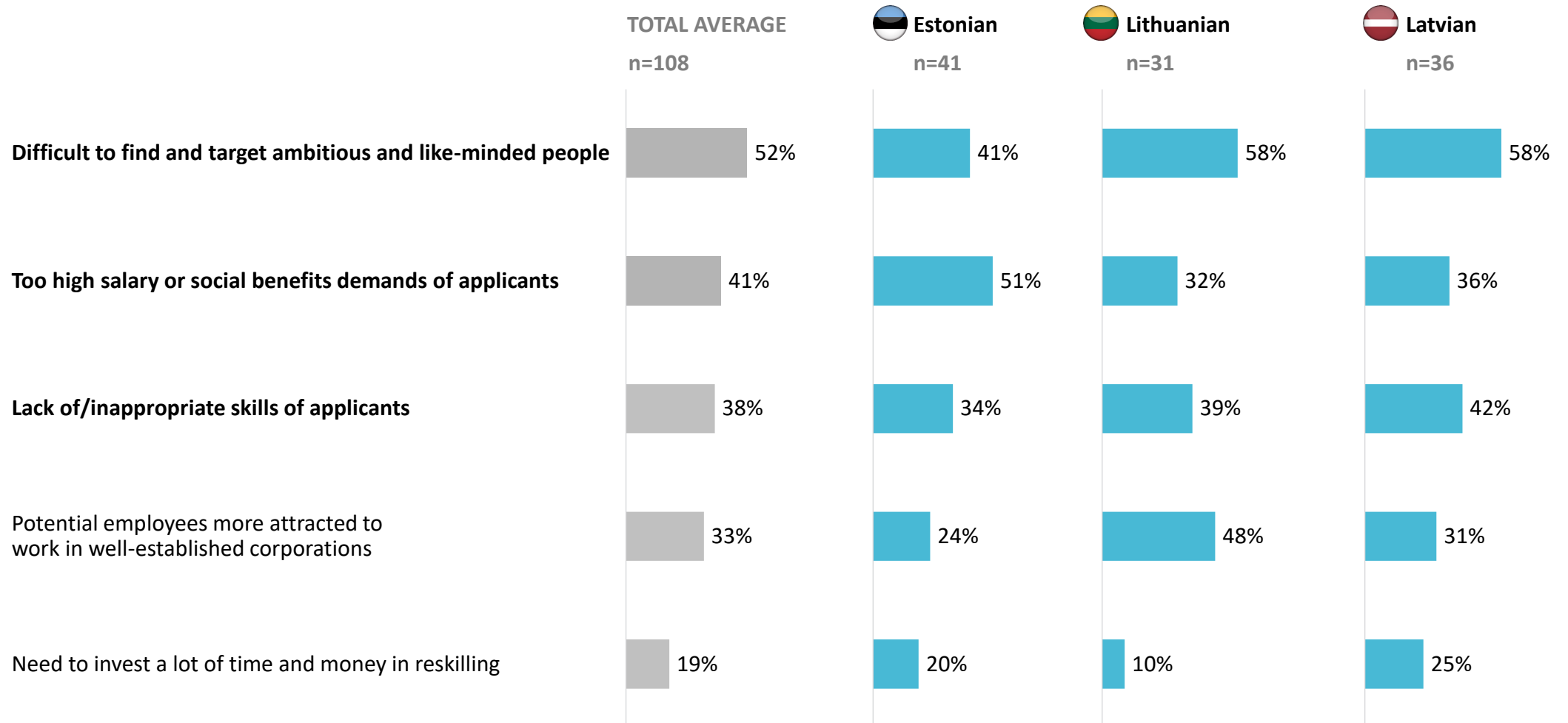
MOST DIFFICULT AREAS FOR FINDING TALENTS FOR STARTUP COMPANIES, (1 – easy, 10 – difficult)



Marketing people are available, however, the skillset is lacking

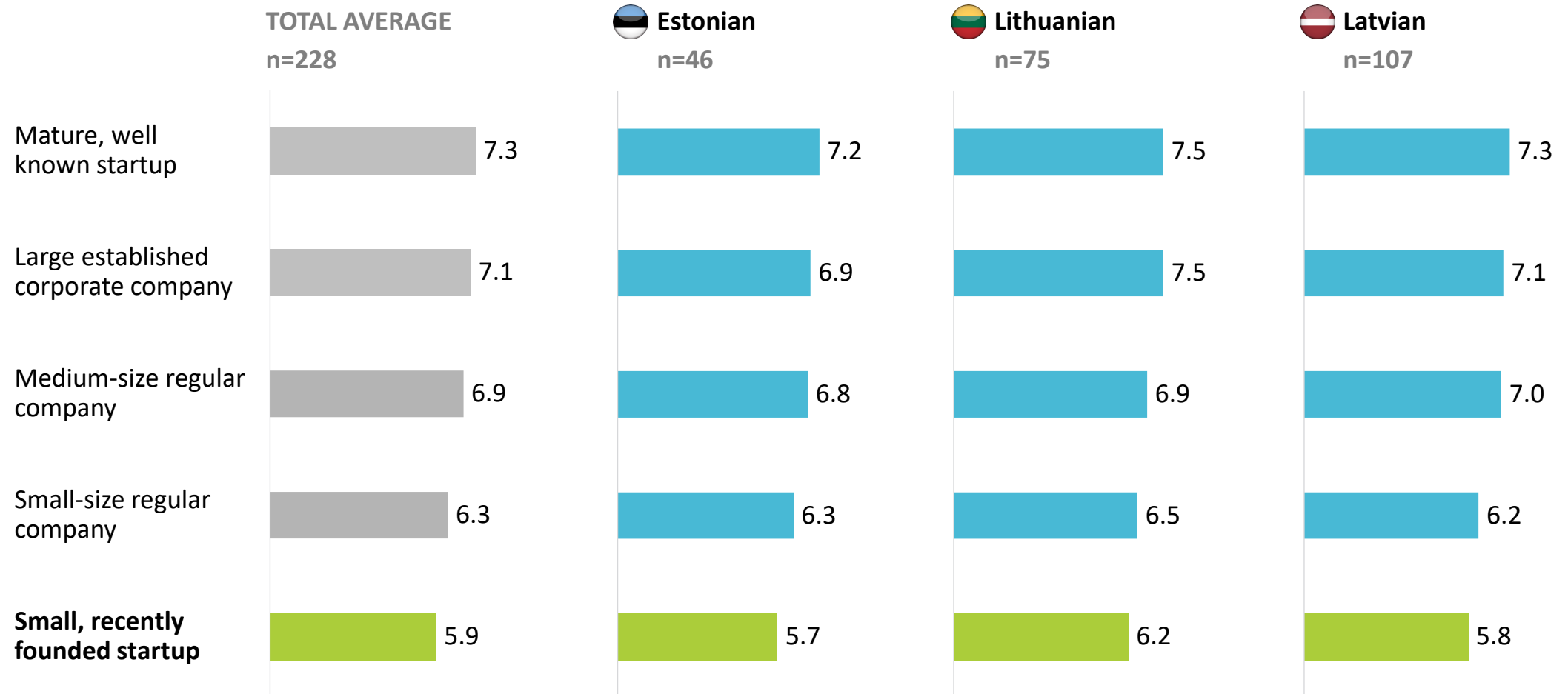
\ IT IS DIFFICULT FOR STARTUPS TO FIND AMBITIOUS AND LIKE-MINDED PEOPLE, MEET SALARY EXPECTATIONS, OR ENSURE APPROPRIATE LEVEL OF SKILLS

THE DIFFICULTIES STARTUPS FACED WHILE HIRING EMPLOYEES, % of respondents



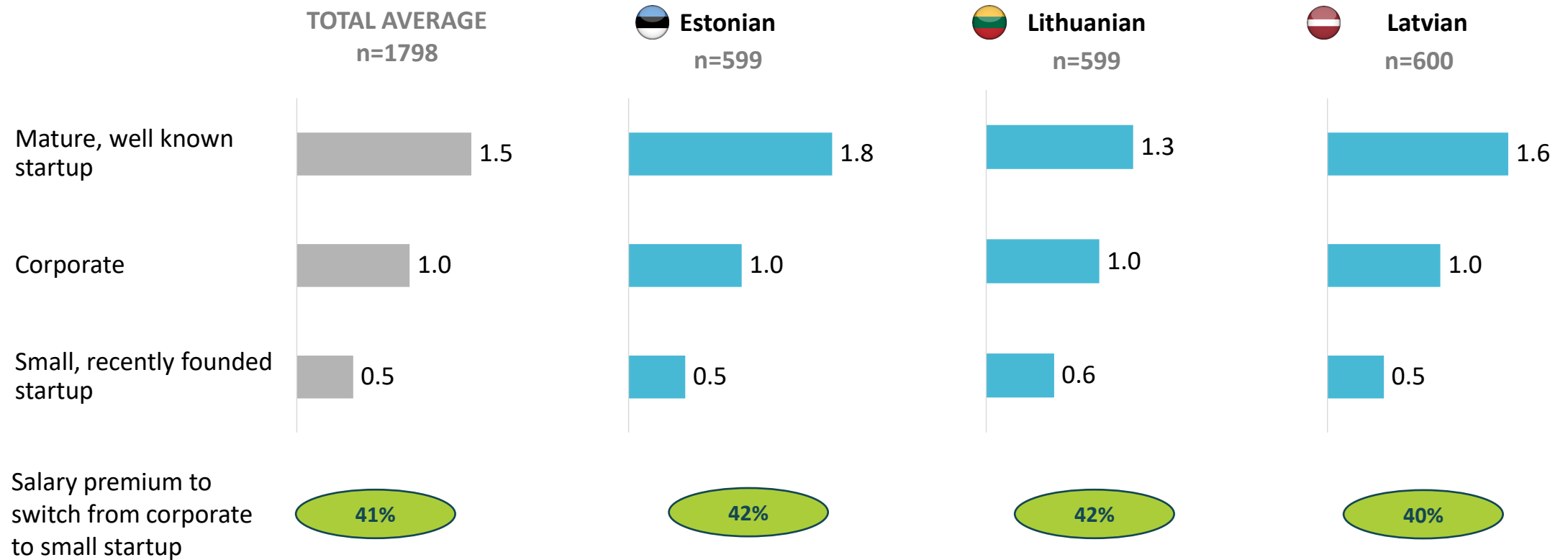
\ EMPLOYEES WANT TO WORK AT A MATURE, WELL-KNOWN STARTUP

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



\ HOWEVER, YOUNG STARTUPS FIND IT DIFFICULT TO ATTRACT EMPLOYEES

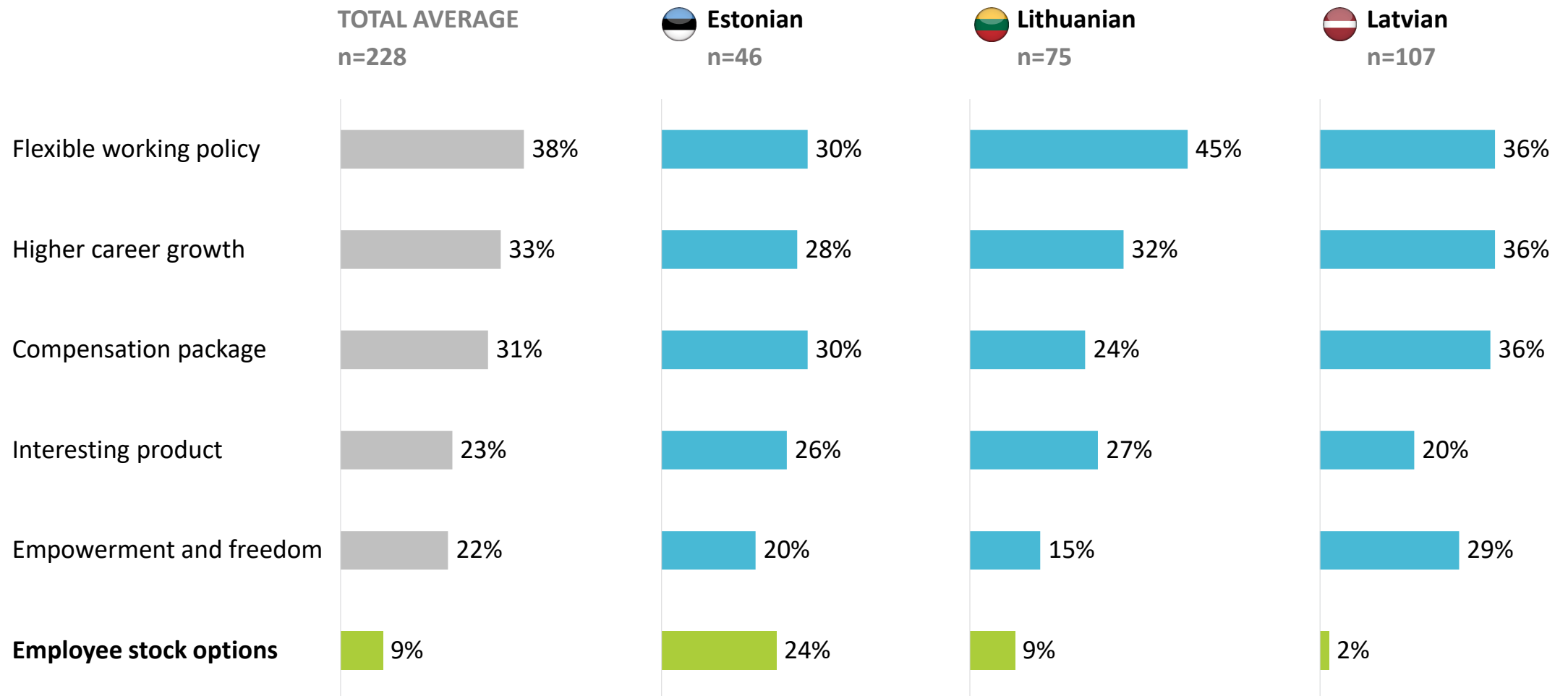
ASSUMING THE SAME CONDITIONS (POSITION, SALARY, BENEFITS, WORK HOURS ETC.), WHERE WOULD YOU PREFER TO WORK?, % of respondents vs % of Large corporate company and HOW MUCH BIGGER SALARY SHOULD IT OFFER YOU TO CHOOSE IT OVER CORP.?



Source: Employee survey answers, "ASSUMING THE SAME CONDITIONS (POSITION, SALARY, BENEFITS, WORK HOURS ETC.), WHERE WOULD YOU PREFER TO WORK?" and "HOW MUCH BIGGER SALARY SHOULD SMALL STARTUP OFFER YOU TO CHOOSE IT OVER LARGE CORPORATION?"

\ CAN WE USE STOCK OPTIONS TO ATTRACT EMPLOYEES TO WORK FOR STARTUPS?

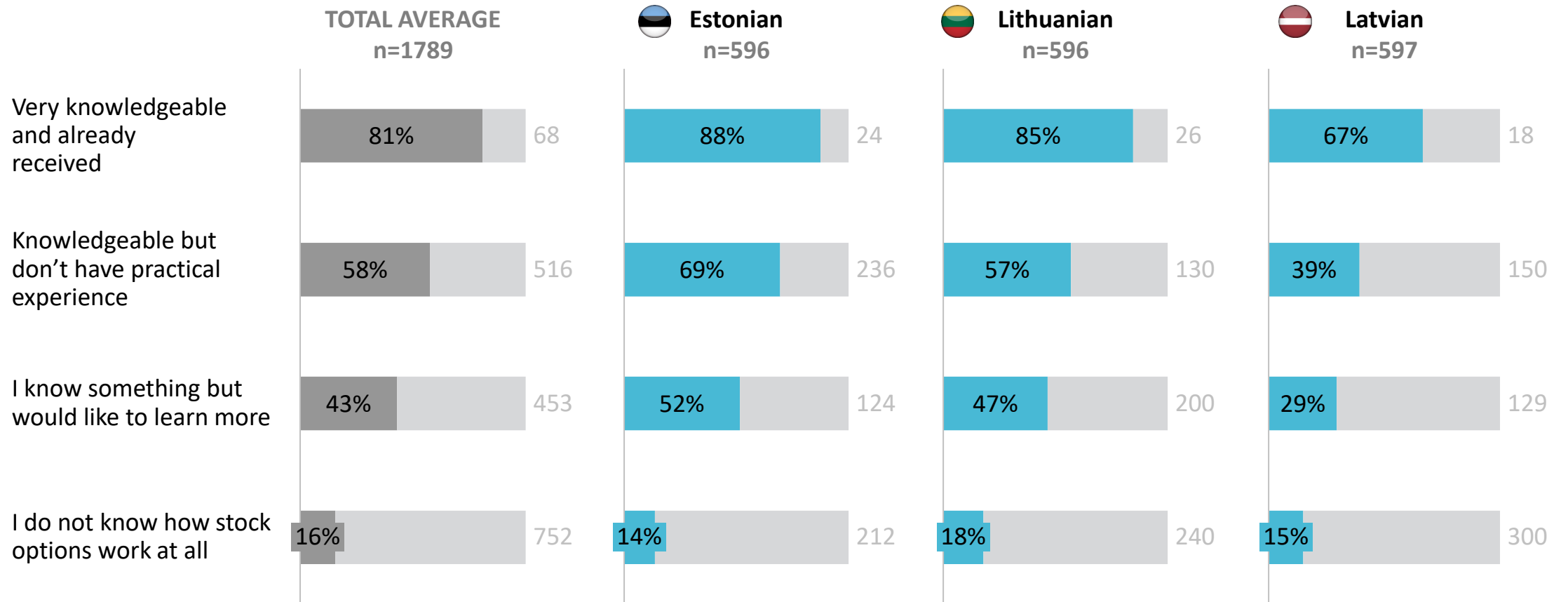
WHAT WERE THE MAIN REASONS FOR YOUR DECISION TO WORK IN A STARTUP FOR EMPLOYEES, % of respondents



STOCK OPTIONS ARE A POWERFUL TOOL TO ATTRACT EMPLOYEES IF THEY HAVE KNOWLEDGE ABOUT THE SUBJECT

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

Very important and Important Others

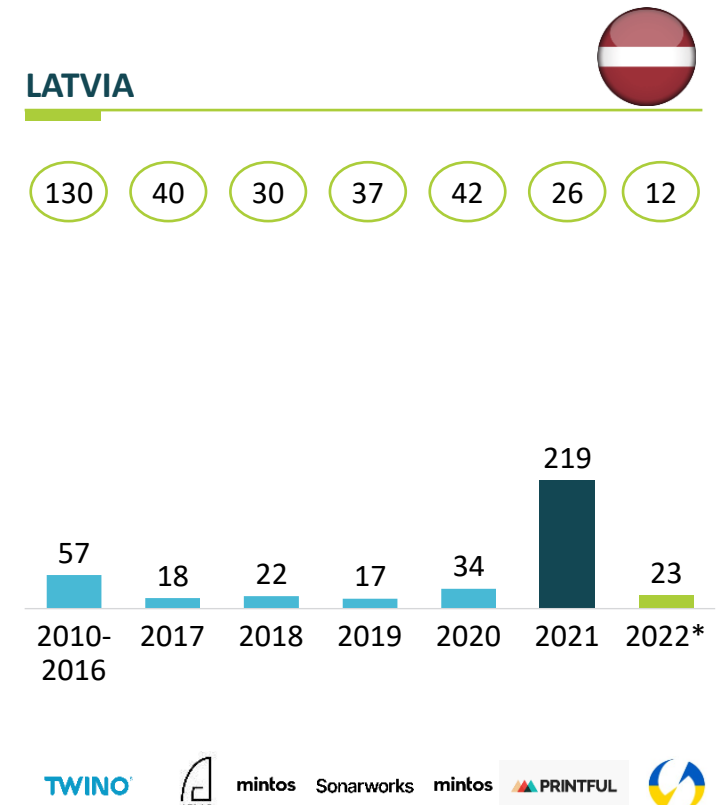
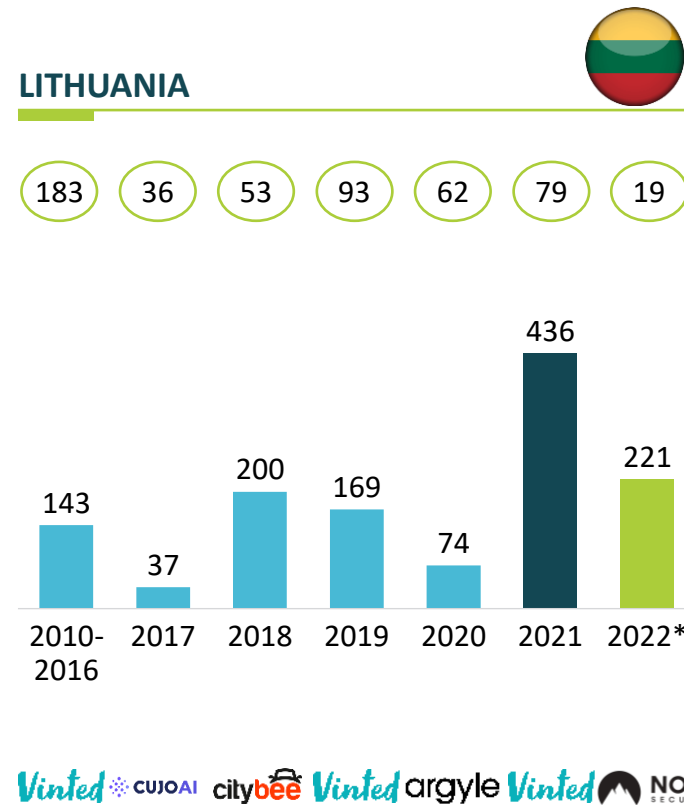


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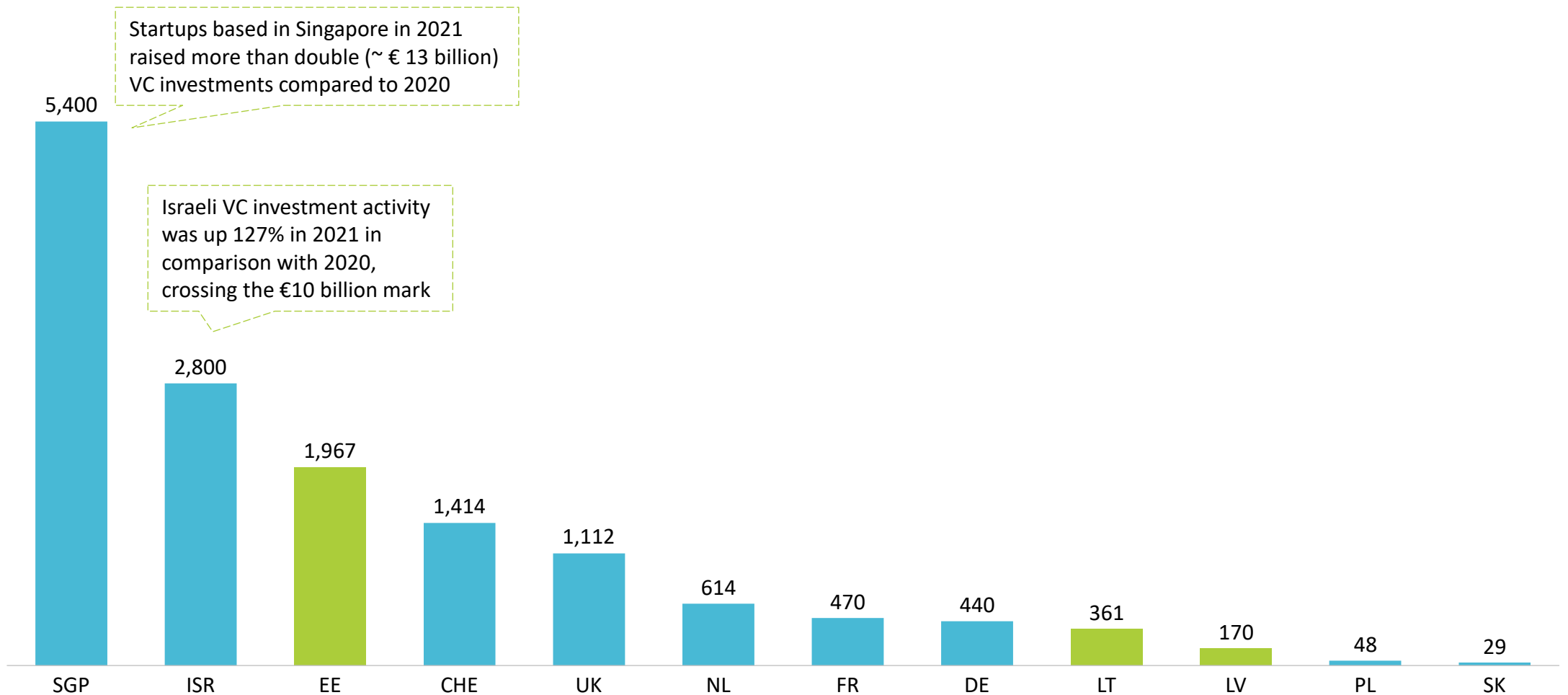
\ TOTAL VC FUNDING IN THE BALTICS HAS DRASTICALLY INCREASED SINCE 2017, WITH ESTONIA AS THE CLEAR LEADER

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



\ ESTONIA HAS RAISED THE MOST VC FUNDING PER CAPITA OF ANY COUNTRY IN EUROPE

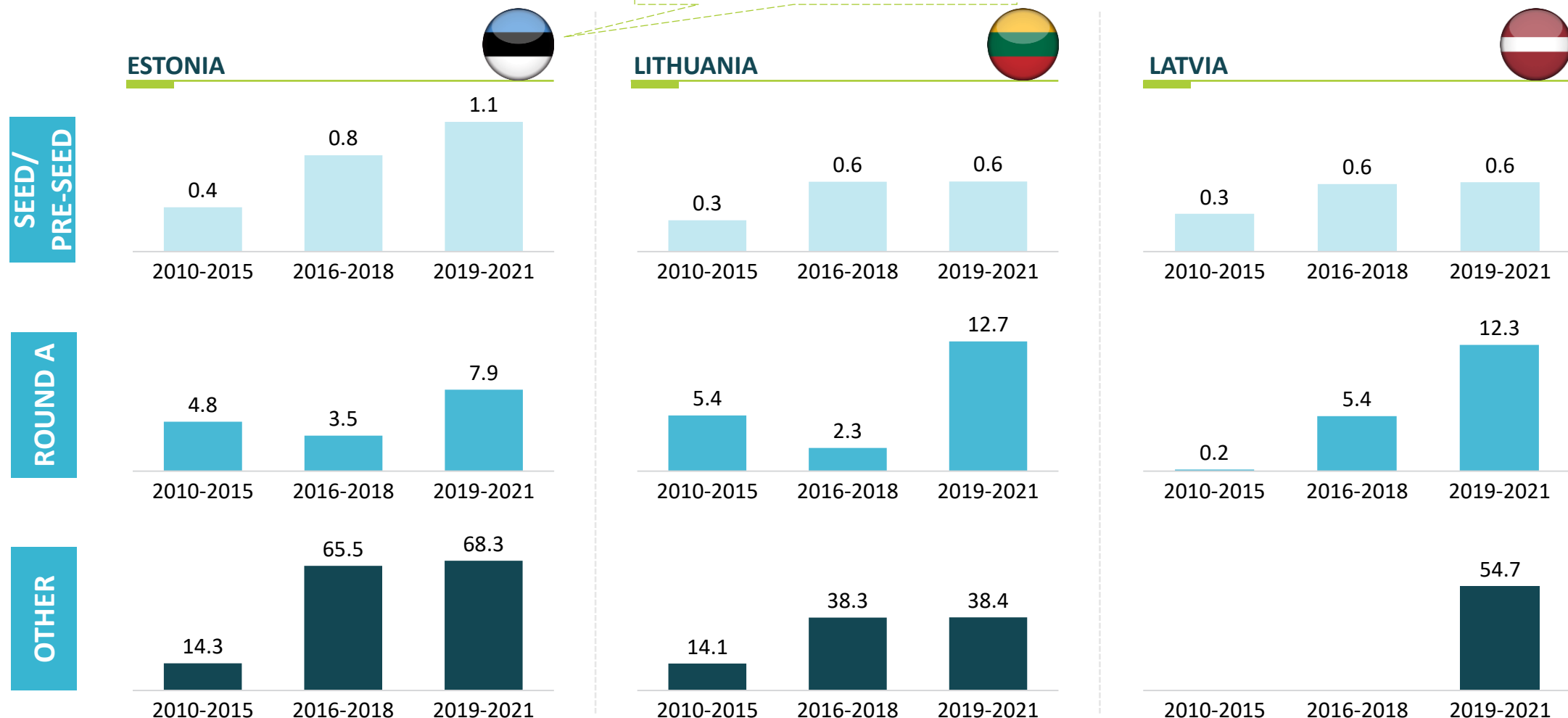
VC FUNDING PER CAPITA BY COUNTRY, EUR , 2015-2021



\ AVERAGE ROUND SIZES HAVE BEEN INCREASING OVER THE YEARS

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

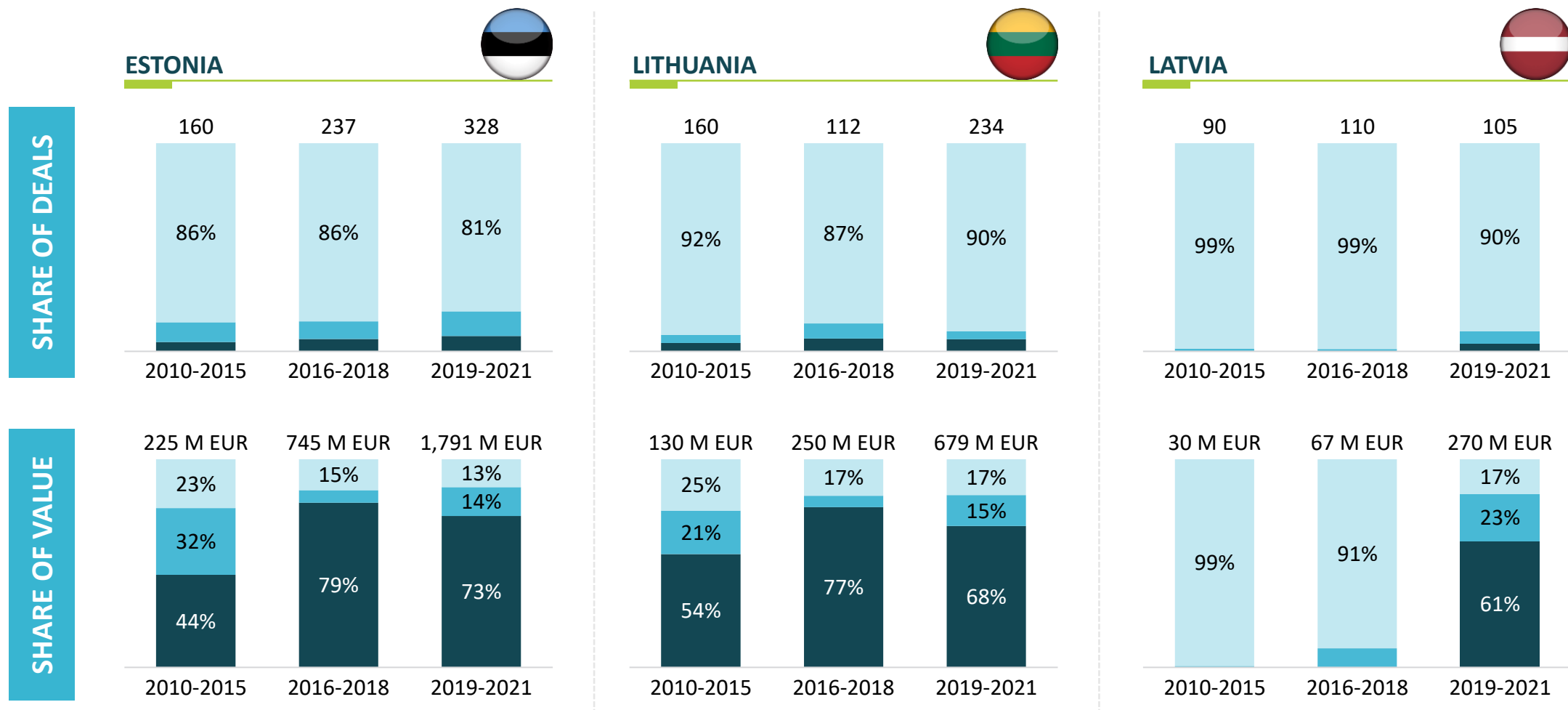
Estonia has higher average pre-seed and seed round sizes, and more funding raised in other, bigger rounds



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

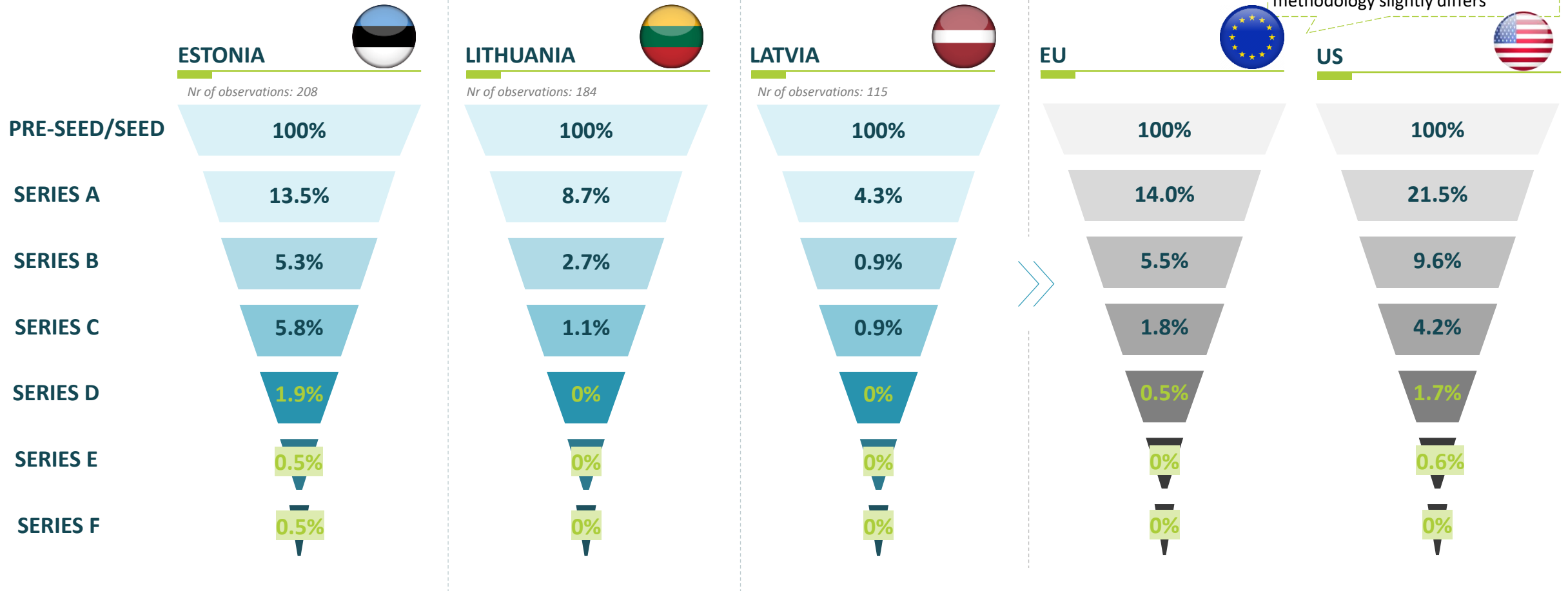
SHARE OF DEALS COUNT AND DEALS VALUE, M EUR, 2010-21

Seed/Pre-Seed Series A Other



\ MOST STARTUPS DO NOT PROGRESS FROM PRE-SEED / SEED STAGE

SUCCESS FUNNELS OF STARTUPS BY COUNTRY

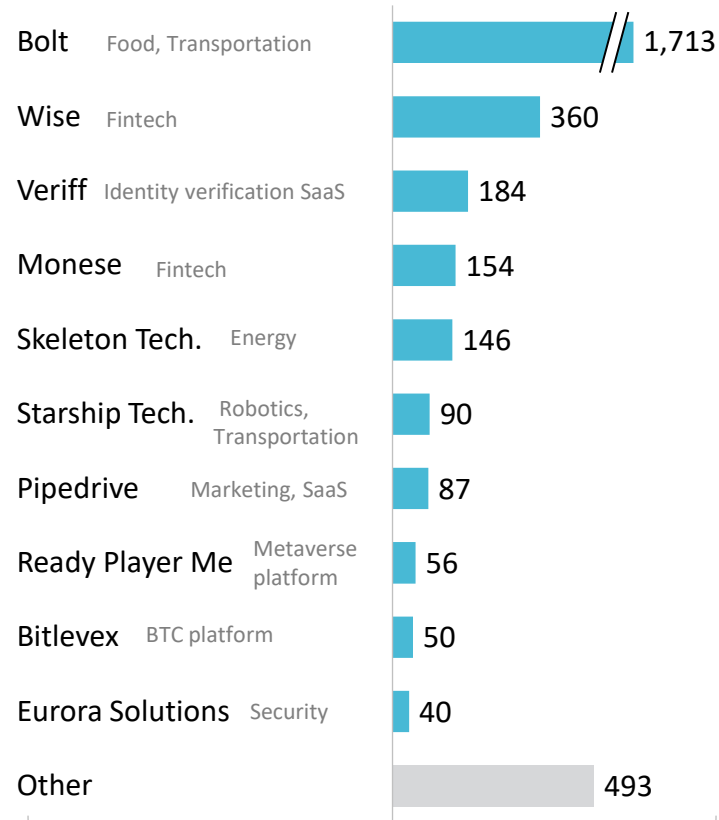


Note: Success funnels built based on Dealroom data. Only startups which reported a Seed round in 2000-18 (incl.) are included into analysis. % indicates percentage of companies that managed to get to the given round out of those which had a Seed round in the given period. Self-declared round names are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

MAJORITY OF FUNDS GO TO FEW SELECTED WINNERS IN EACH COUNTRY

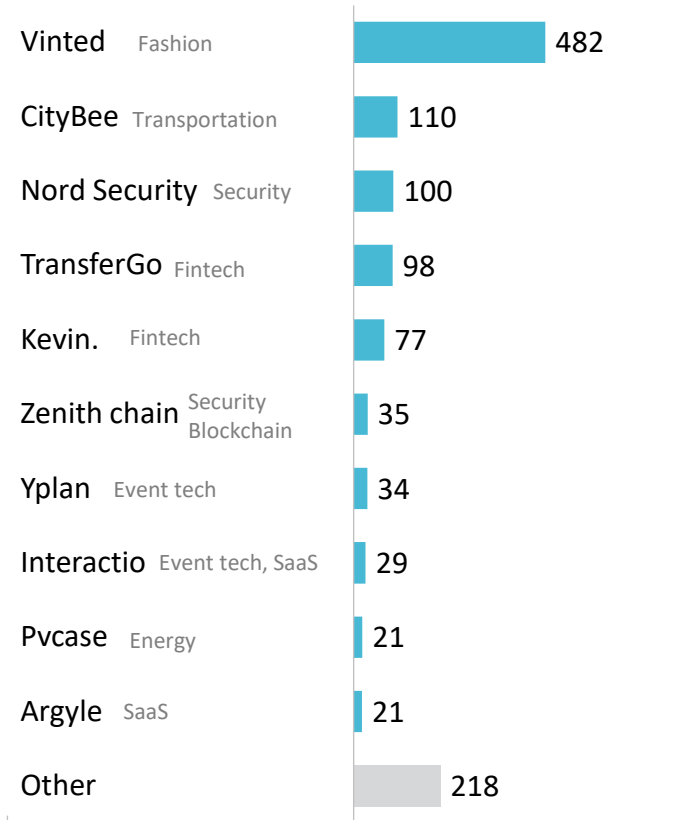
VC FUNDING RAISED BY TOP 10 COMPANIES IN BALTICS BY COUNTRY, AS OF AUGUST 2022, M EUR

ESTONIA



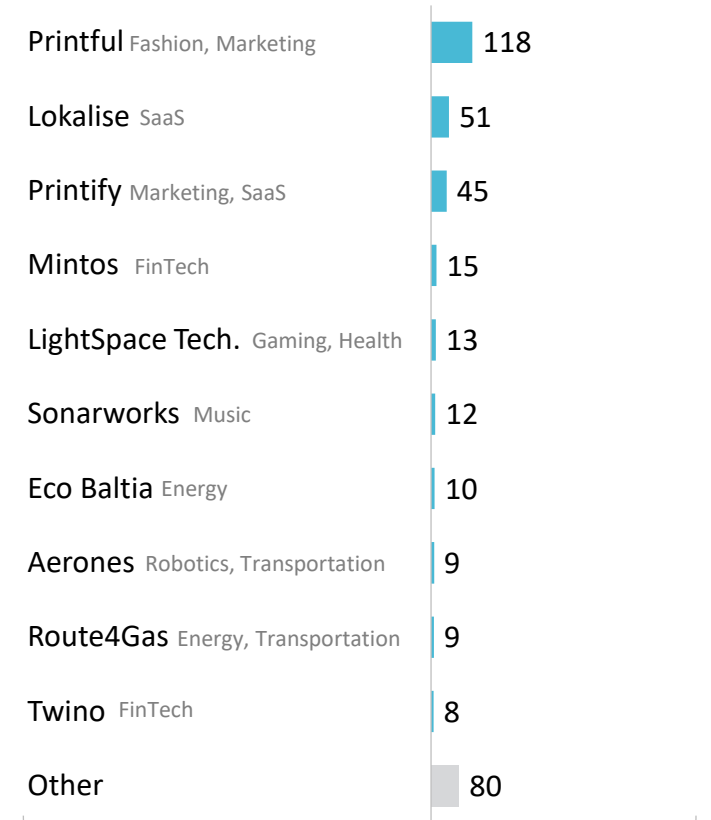
85% of total funding attracted by TOP 10 companies

LITHUANIA



79% of total funding attracted by TOP 10 companies

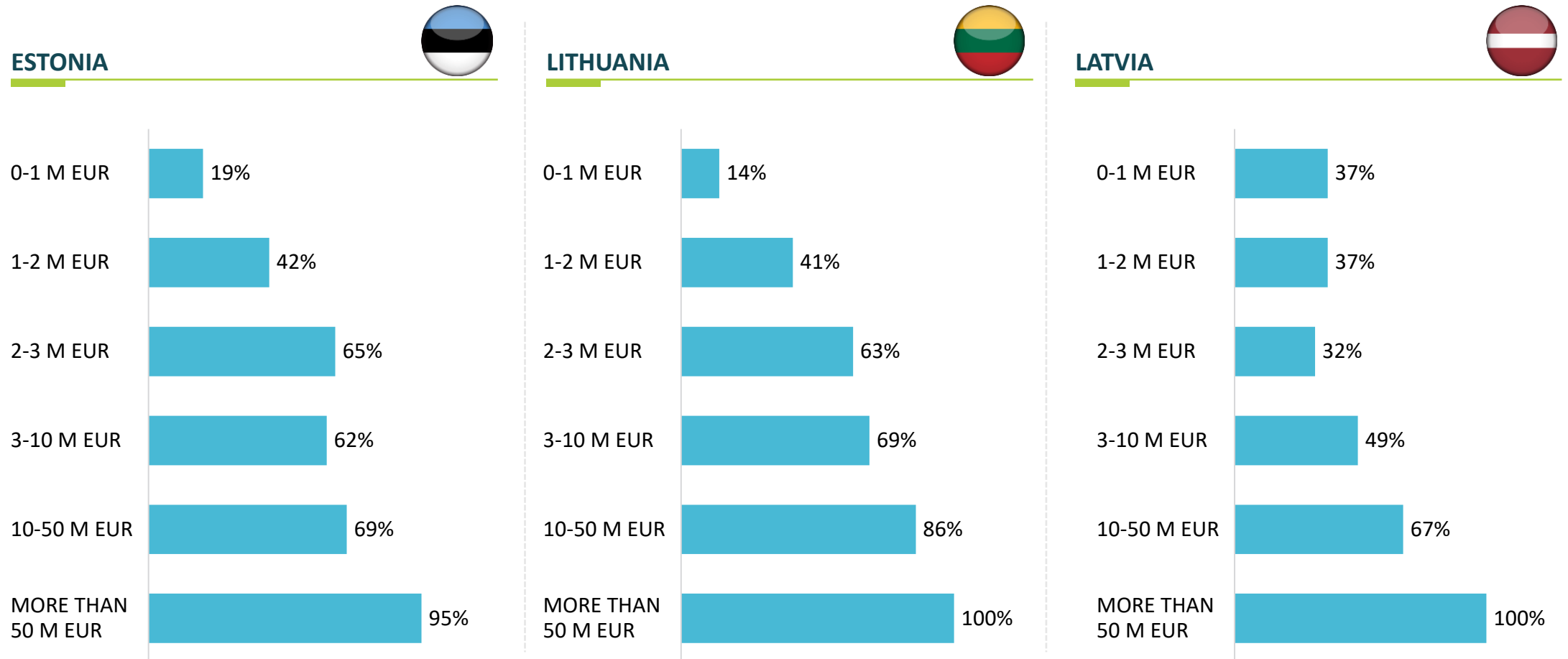
LATVIA



79% of total funding attracted by TOP 10 companies

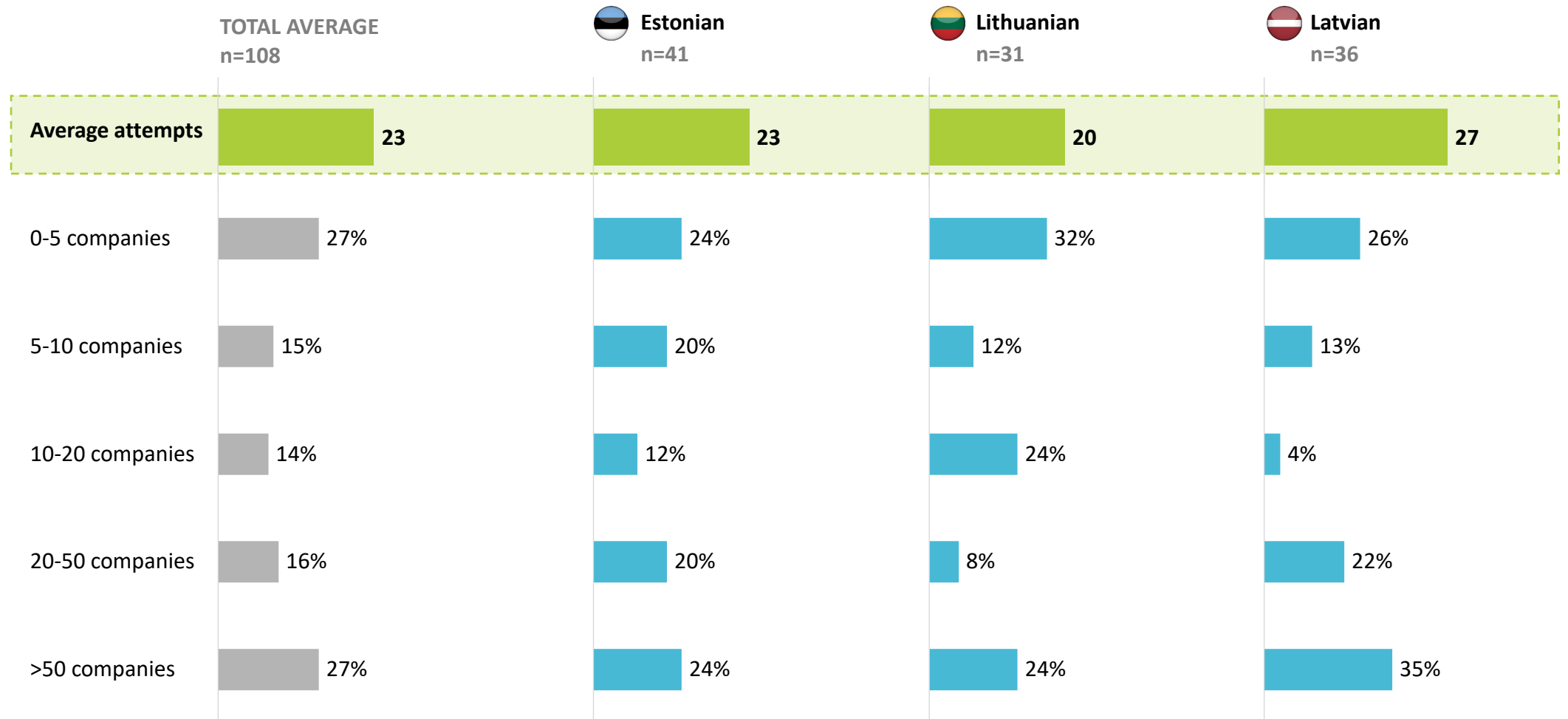
FOREIGN CAPITAL IS CRUCIAL IF STARTUPS WANT TO RAISE HIGHER VALUE ROUNDS

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



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



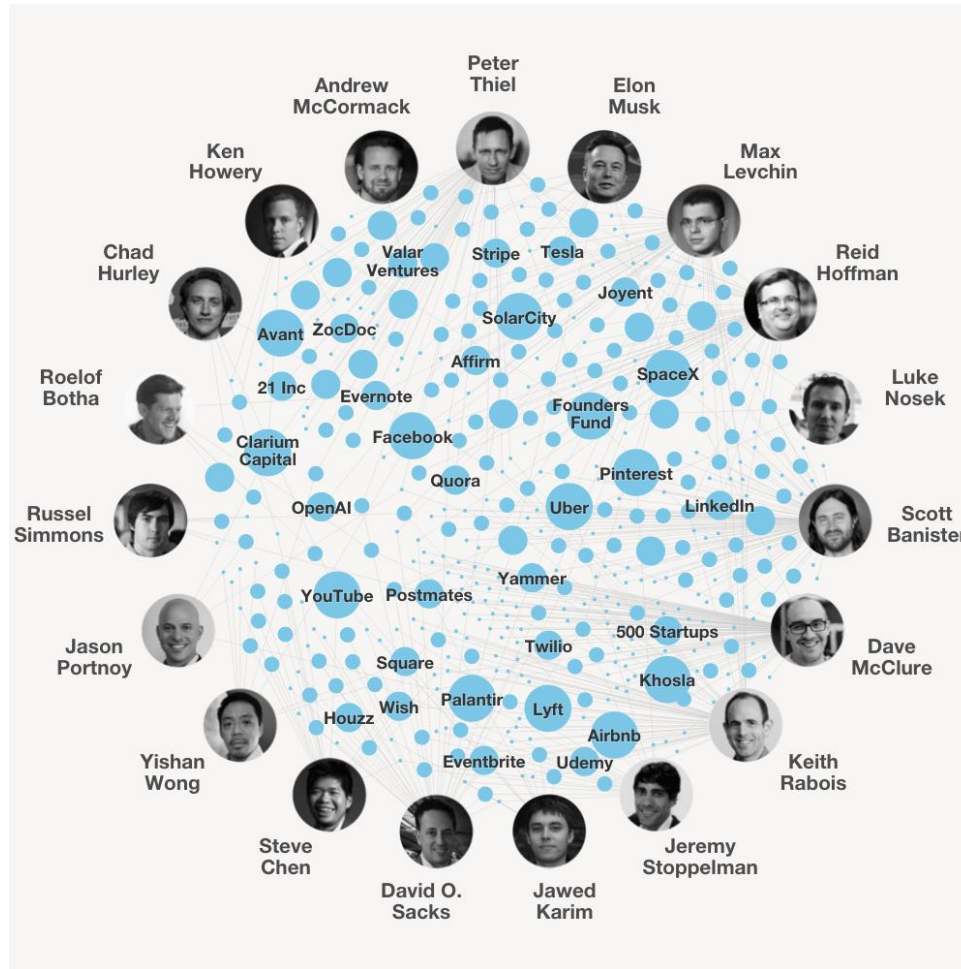
\ SUCCESSFUL EXIT IS AN IMPORTANT SOURCE OF CAPITAL FOR FURTHER STARTUP CREATION

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

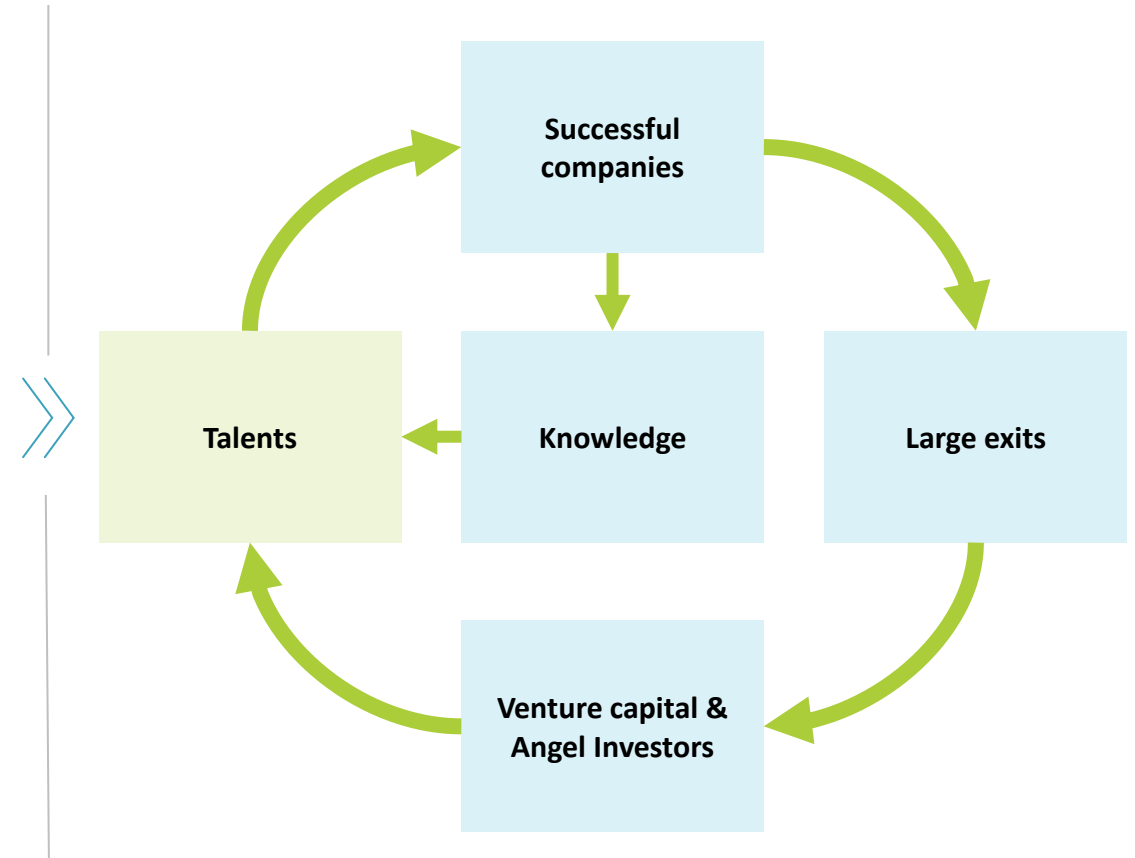


FLYWHEEL EFFECT – SUCCESS BRINGS SUCCESS

PayPal Mafia



Flywheel effect of building unicorns



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\ THE BALTIC POLICIES AND REGULATIONS ARE GENERALLY FAVORABLE FOR STARTUPS

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

		Assessment of regulation	Assessment of outcomes	Favorable regulation/ outcome in place	Moderate improvements can be done	Lacks proper regulation / outcome, action required
MAJOR GROWTH DRIVERS		Estonia	Lithuania	Latvia		
General business environment						
Growth	Innovation policy					
	Support mechanisms					
Talent	Local talent					
	Foreign talent					
	Stock options					
Funding	Corporate governance					
	IP protection					

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

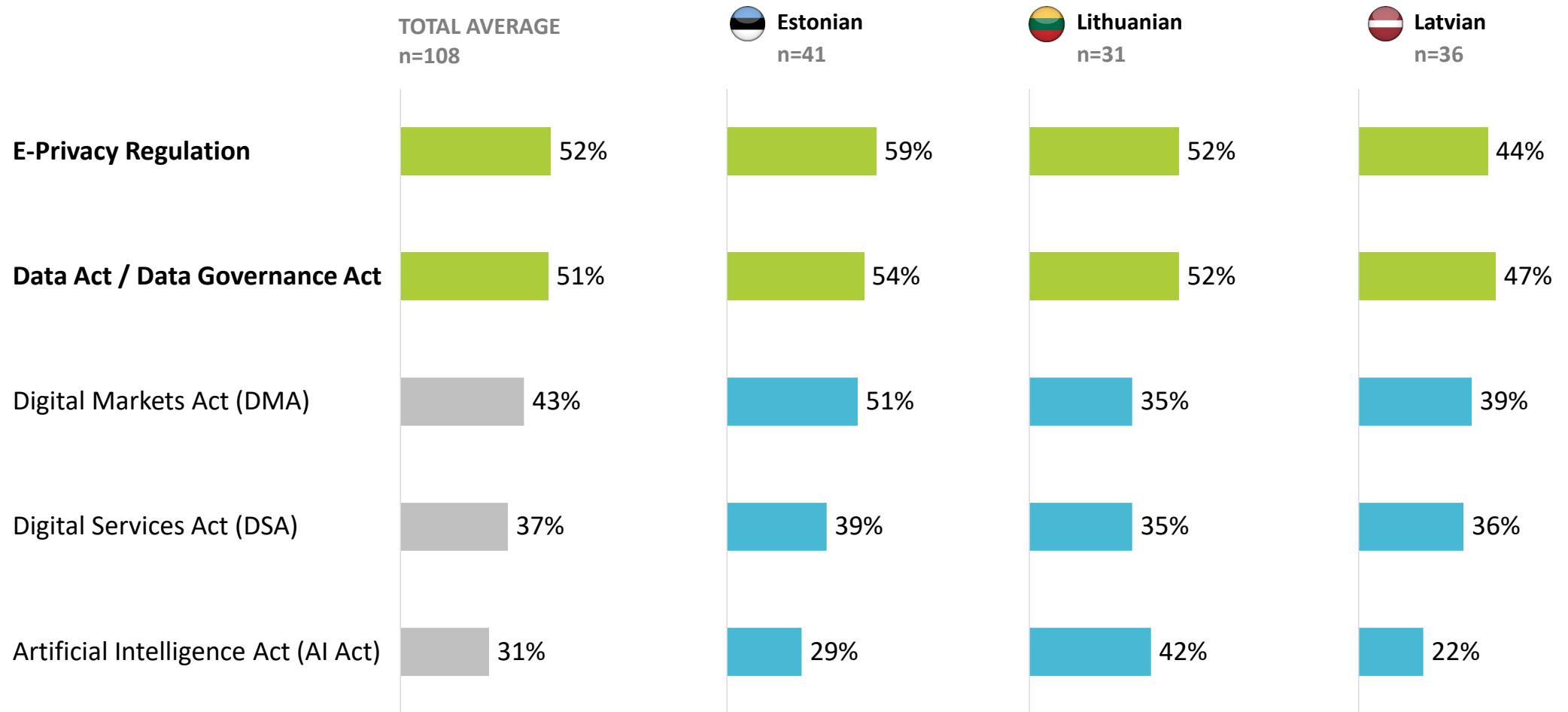
◆ Effect on Operational activities for major groups of startups

⬠ Facilitation without a direct effect

Digital services	Data	Artificial Intelligence (AI)	Consumer protection	IP protection	Environment and transition
<ul style="list-style-type: none"> ◆ E-Commerce Directive (ECD) ● <i>Digital Services act (DSA)</i> ● <i>Digital markets act (DMA)</i> ● <i>EU Single Digital Gateway Regulation</i> ◆ Directive on Copyright in the Digital Single Market 	<ul style="list-style-type: none"> ● GDPR ● Data Governance Act ● <i>Data Act</i> 	<ul style="list-style-type: none"> ◆ <i>AI act</i> 	<ul style="list-style-type: none"> ◆ New Deal for Consumers package 	<ul style="list-style-type: none"> ● Intellectual property action plan 	<ul style="list-style-type: none"> ⬠ EU Green Deal ⬠ Fit for 55 ⬠ Circular Economy Action Plan ⬠ European Industrial Strategy ⬠ Industry 4.0 ⬠ CSRD

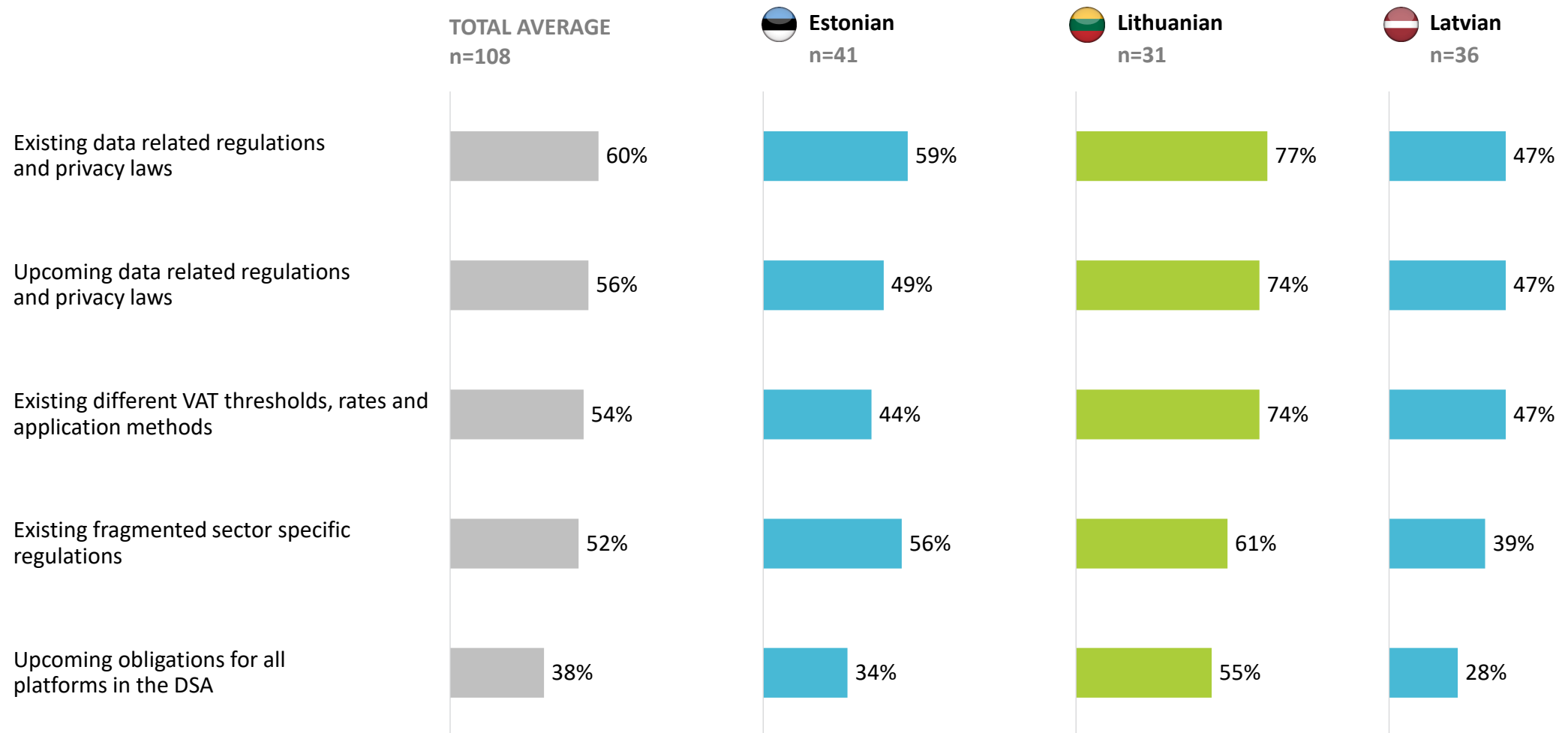
\ HOWEVER, STARTUPS LACK AWARENESS OF THOSE POLICIES AND THE IMPACT THEY MIGHT HAVE FOR THE FUTURE OF COMPANIES

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



\ COMPLYING WITH EU REGULATIONS MIGHT BE 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



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\ 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 an MVP, talk to customers, focus on sales, 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.

\ 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.
- 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.

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