

# 500 Startups

## The Impact of COVID-19 on the Early-Stage Investment Climate: Q3 2020

An update on how the startup investor community is responding to new challenges and planning for 2021.



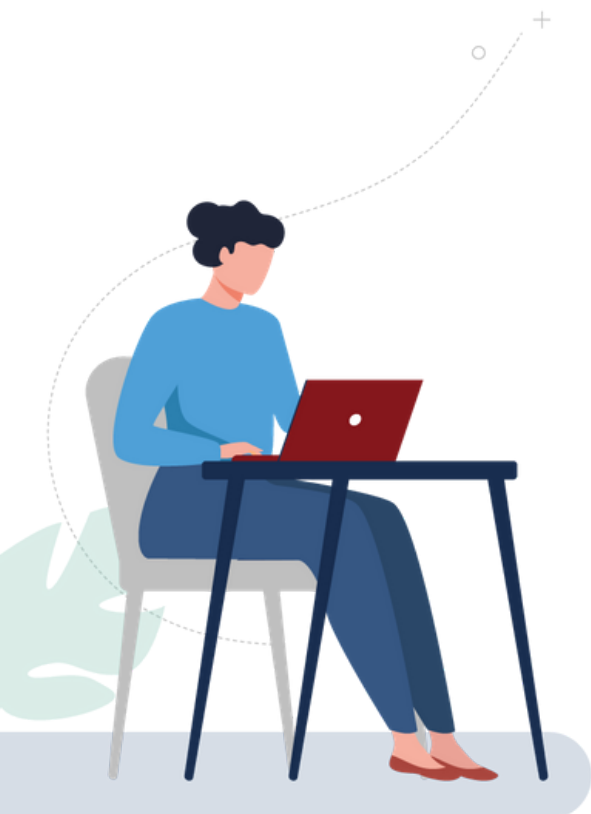
## Executive Summary

500 Startups surveyed 160 investors as a follow up to our April 2020 survey, [The Impact of COVID-19 on the Early-Stage Investment Climate](#). This second installment sought to understand how COVID-19 has changed the investment landscape this year, whether Q2 and Q3 met expectations, and forecast what changes to expect in 2021. In this survey, the majority of respondents identified as venture capital firms (45.6%), with a large percentage of angel investors (30%) as well. A large majority of respondents invest in the seed stage (84.4%), followed by Series A (58.8%) and pre-seed (55.6%) stages.

## Key takeaways include:

- Slightly fewer investors feel COVID-19 is impacting investment: **66.3%** of respondents said that the Coronavirus health crisis had an impact on their investment (**83.5%** said it had an effect in April 2020).
- 2021 will see fewer pre-seed stage investments: **55.6%** of respondents currently invest in pre-seed stages, but only **18.1%** said they plan to invest in this stage next year.
- Corporate ventures are investing less now: **75%** of corporate ventures reported they are investing less, and only **20%** said they have kept the same level of investing prior to the pandemic.
- Investor interest in certain industries affected by COVID-19 will accelerate more than others in 2021.
  - **Mental health:** Investor interest is predicted to increase from **10%** this year to **21.2%** next year.
  - **Logistics:** Investor interest is predicted to increase from **25%** this year to **43.1%** next year.
  - **Productivity software:** Investor interest is predicted to increase from **28.1%** this year to **48.1%** next year.

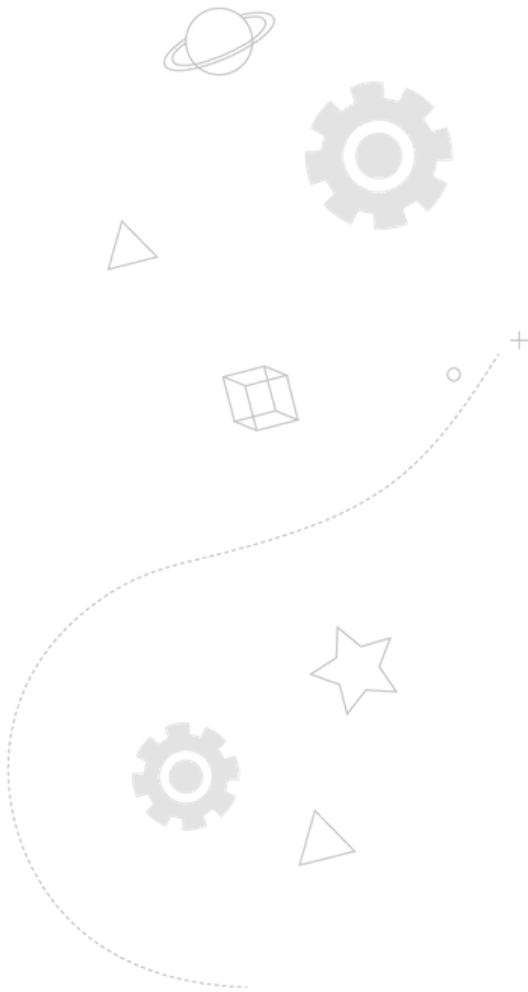
[View the full report below.](#)



## Introduction

*As the pandemic continues, the 500 team would like to reiterate its concern about the health and safety of all or our global team and the 500 Startups community worldwide. We hope everyone will continue to abide by local safety guidelines to prevent the spread of COVID-19.*

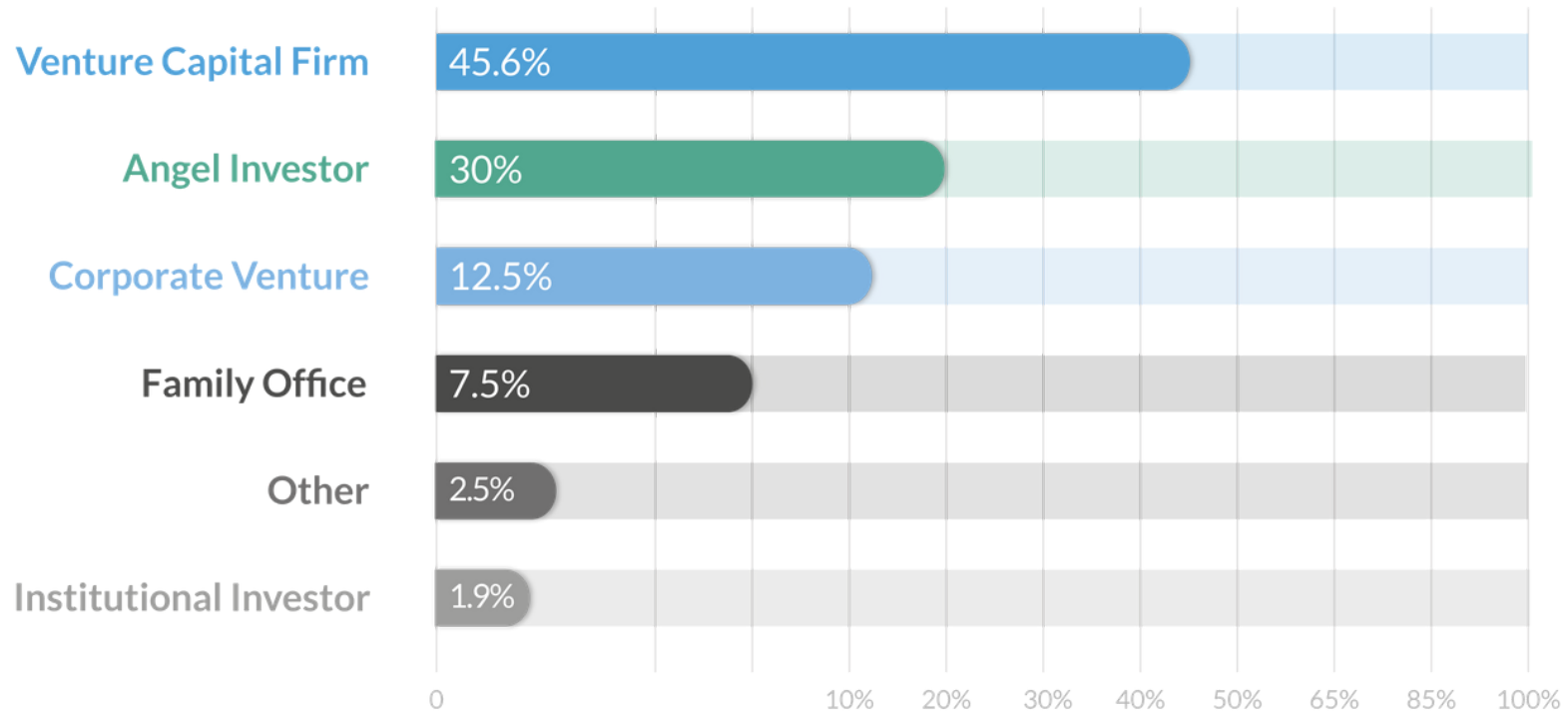
Global startups have quickly adapted to the changes brought on by COVID-19. From restructuring to reallocating resources, we've seen committed founders pivot in order to adapt to dramatic changes happening in our world. After surveying our investor community in April 2020, we decided to take another look at the investment climate to find out what changes have happened and what the community can expect moving forward. As we approach the end of the year, we are also looking ahead to 2021 to see if COVID-19 will sway investment decisions and which industries will likely see more investor interest.



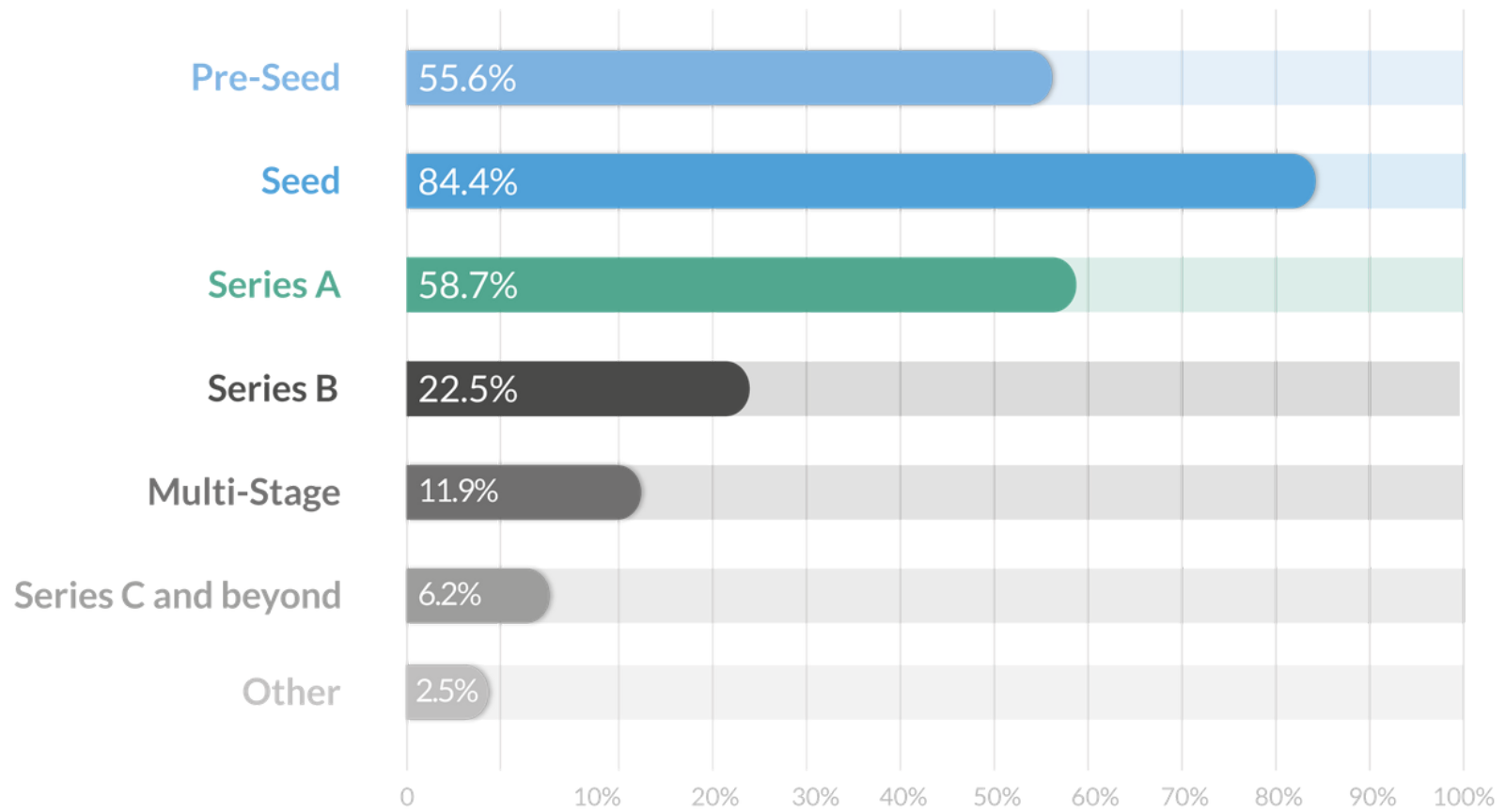
## **The COVID-19 Impact: New Challenges and Planning for 2021**

The following report surveyed 160 investors, who answered a series of ten questions inquiring on how the investment climate has changed since the outbreak of COVID-19, as well as future investment plans.

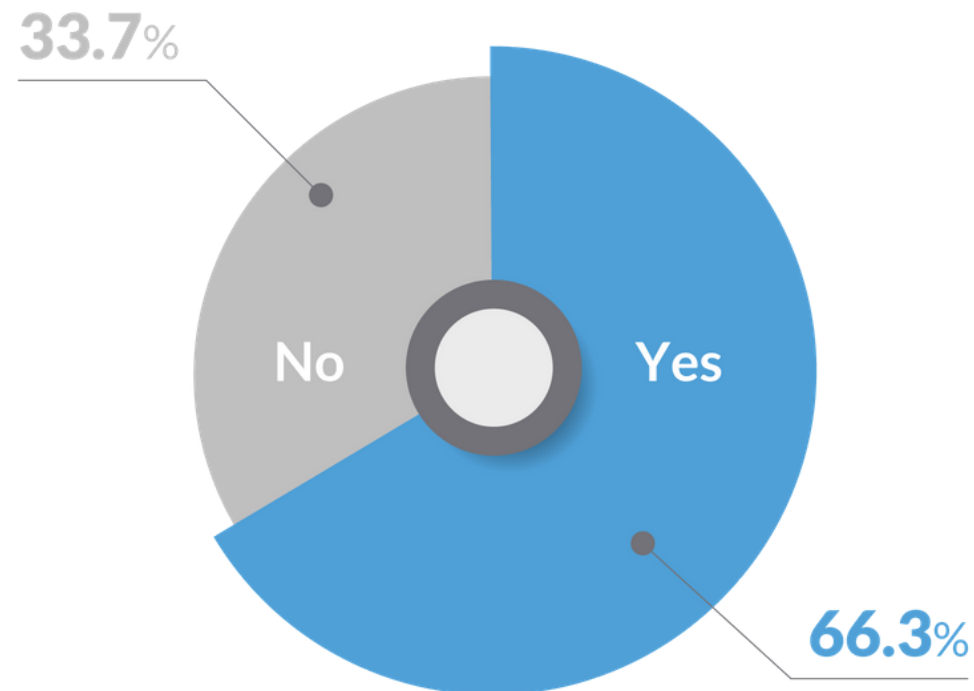
## What type of firm/investor do you identify as?



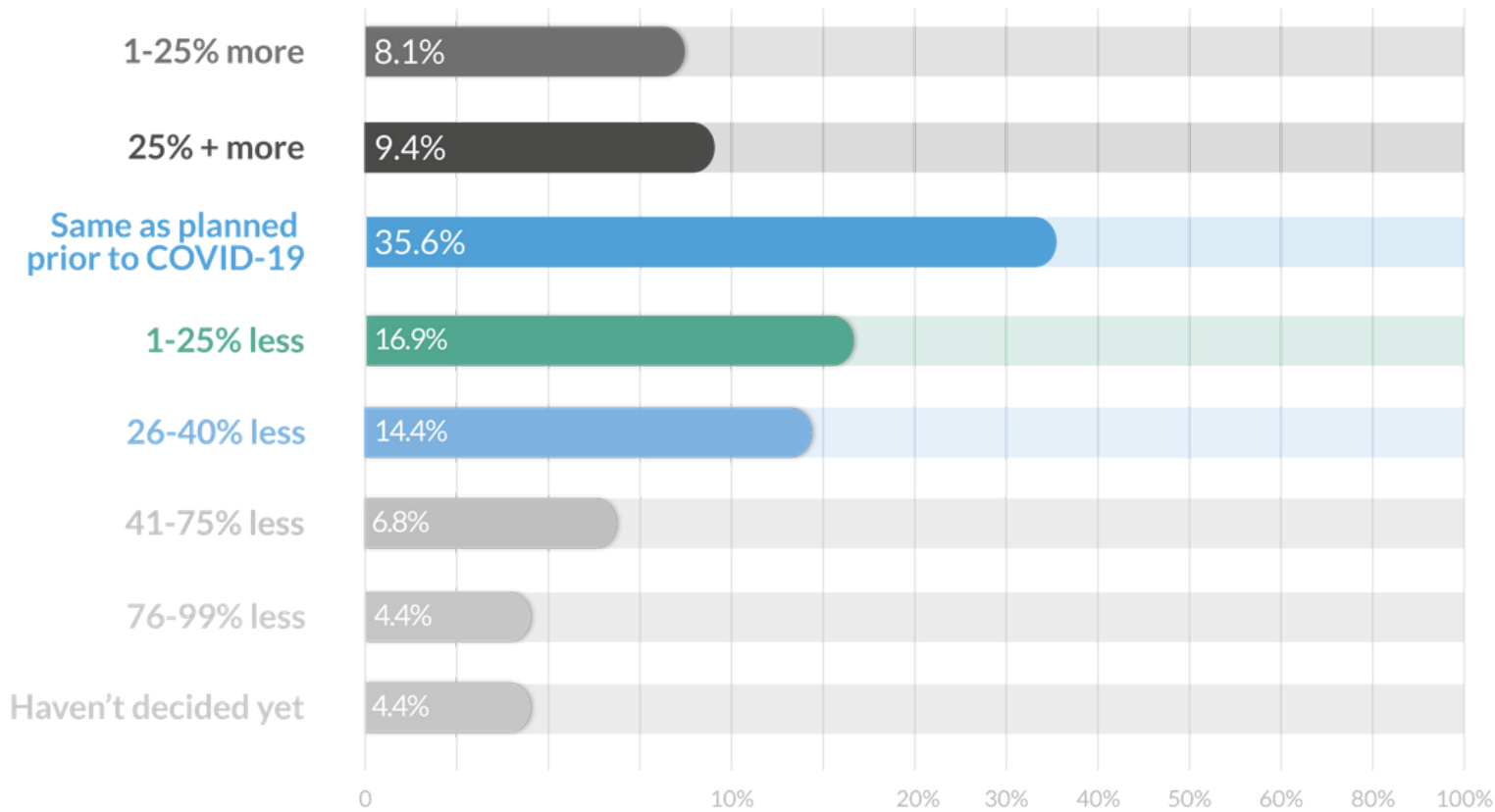
# What stages do you invest in?



## Has the Coronavirus health crisis had an impact on your investment activities or plans to date?



# By how much has your investment activity in startups changed since COVID-19?

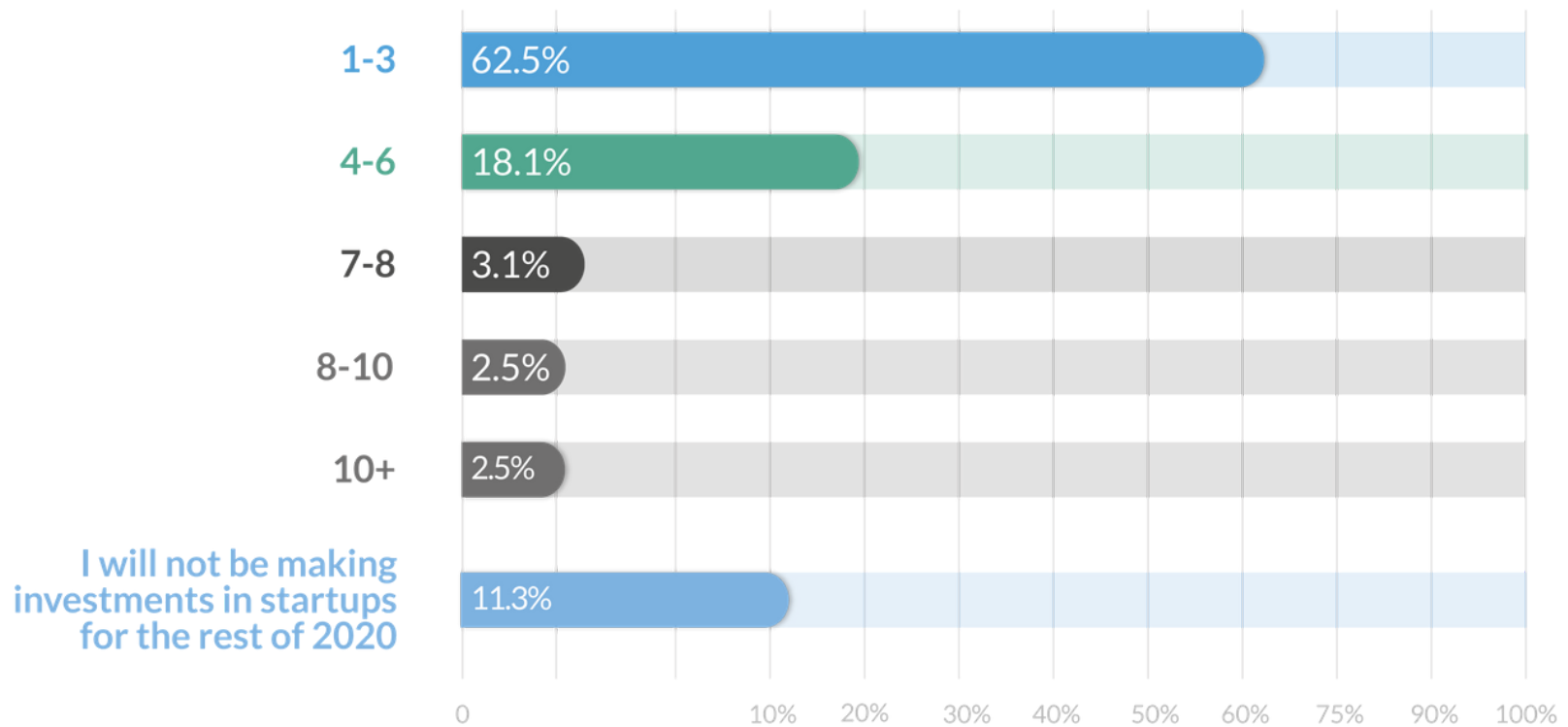


## Survey Results from April 2020

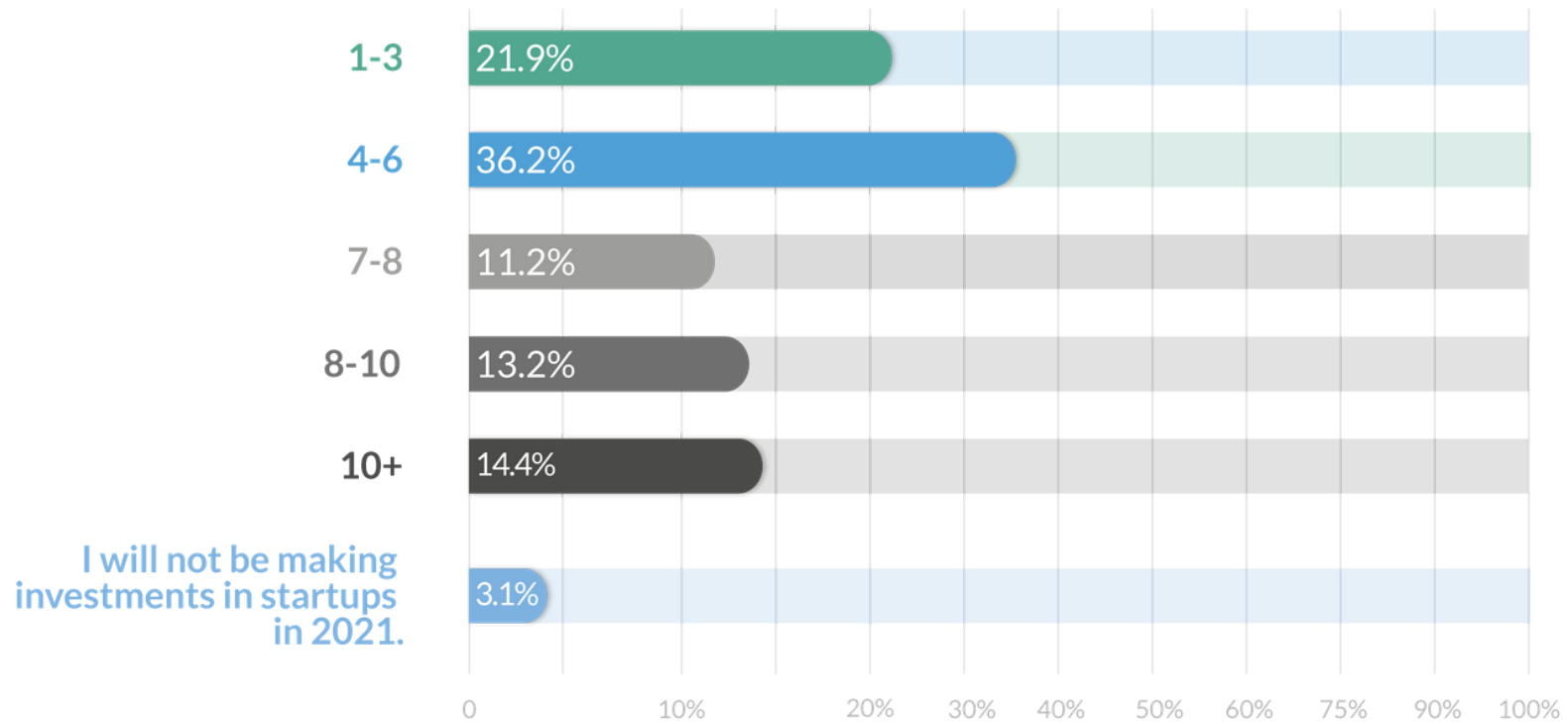
Same as planned prior to COVID-19	25.6%
10-25% less	11.5%
26-50% less	16.5%
51-75% less	13.7%
Haven't decided yet	31.6%



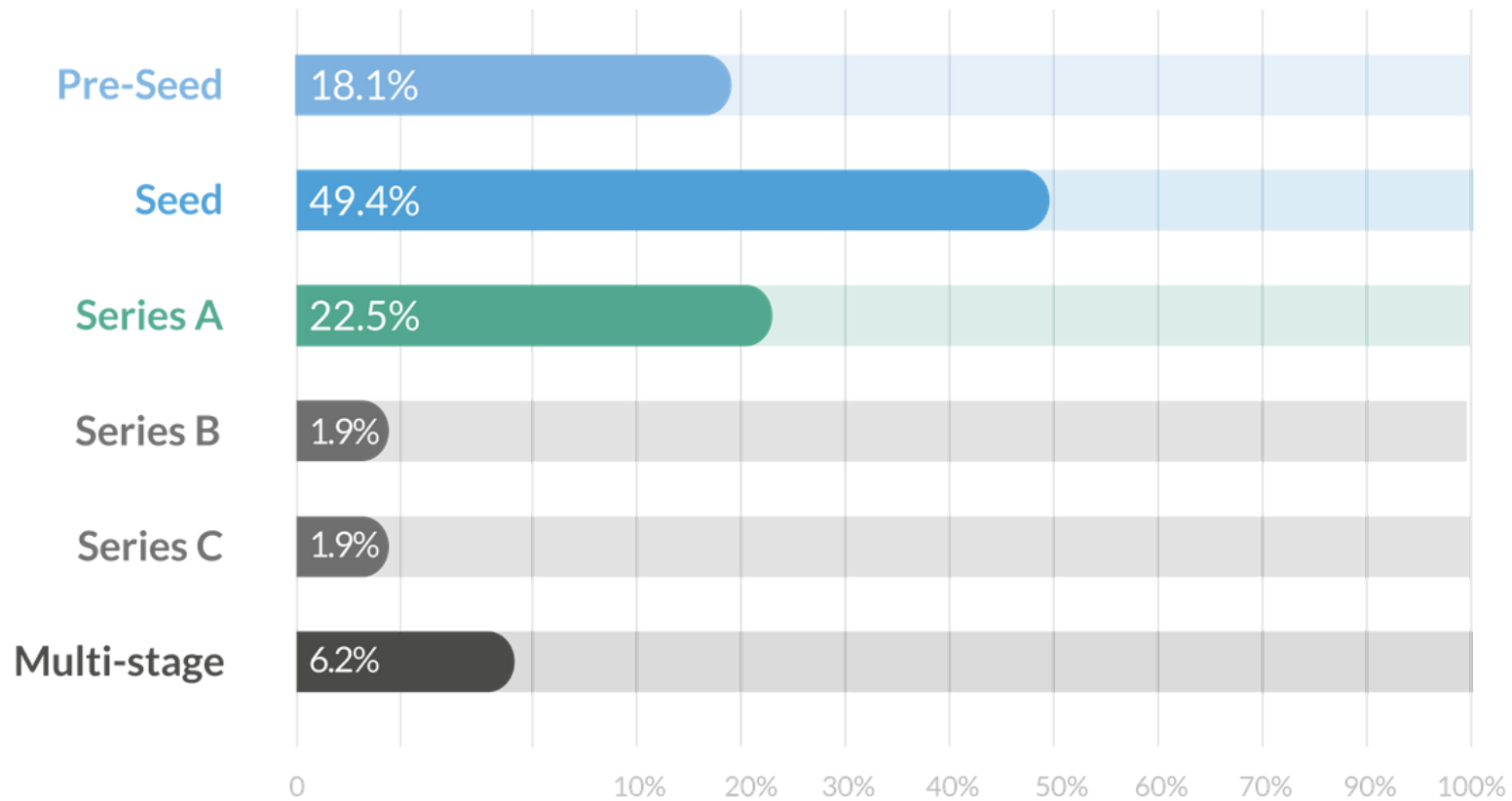
## How many new investments in companies will you make in the remainder of 2020?



# How many new investments in startups are you planning for 2021?



## In what stage will you be investing in the most in 2021?



# Are valuations in Q3 2020 higher, lower, or what you expected?



Valuations are higher than I expected.

39.4%

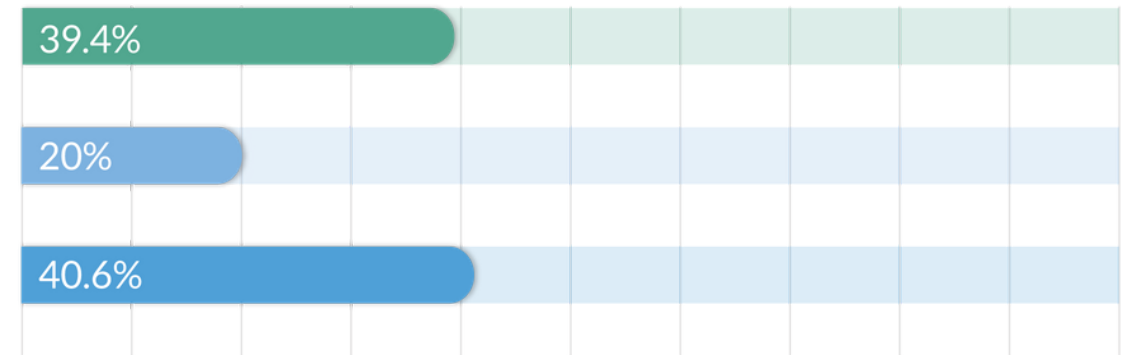
Valuations are lower than I expected.

20%

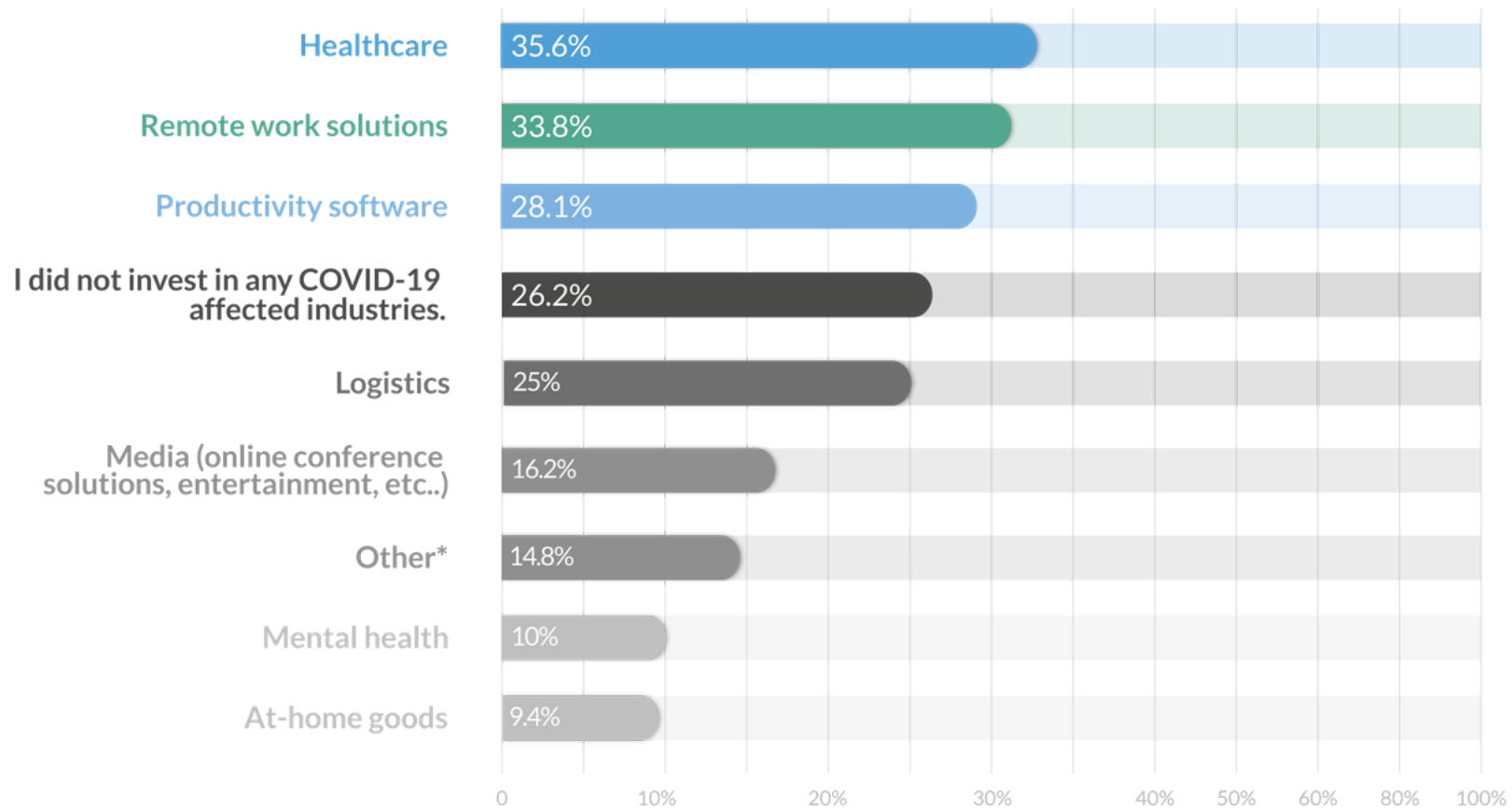
Valuations are about as I expected.

40.6%

0 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

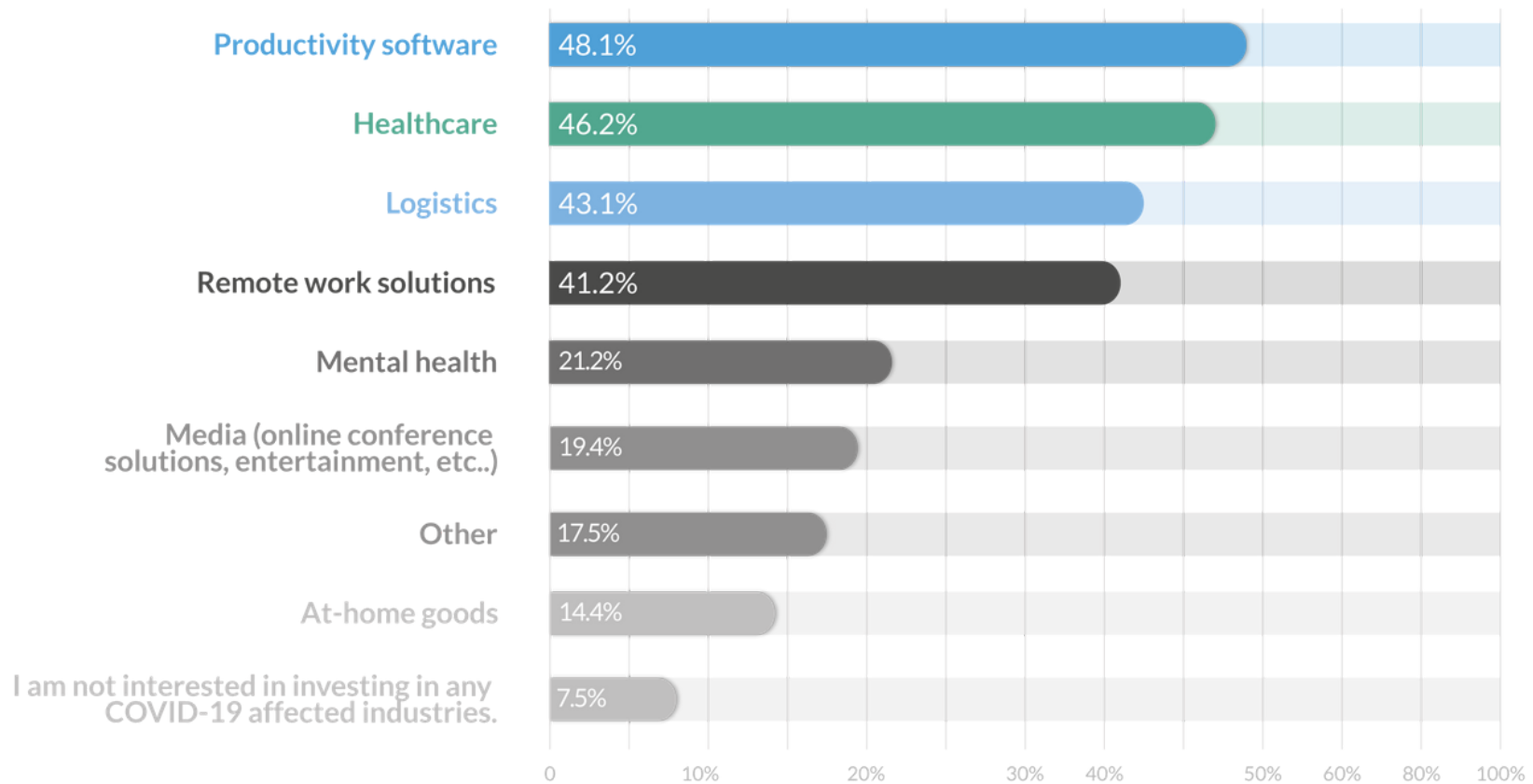


## Which of the COVID-19 affected industries have you invested in this year?



\*Other industries include education, financial services, and foodtech/agtech

## Which of the following sectors will you be investing in during 2021?



## Key sectors to watch

The survey responses gathered suggest that:



**21%** of respondents reported interest in investing in **mental health** in 2021, compared to **10%** who said they've invested in **mental health** in 2020.



**43%** of respondents reported interest in investing in **logistics** in 2021, compared to **25%** who said they've invested in **logistics** in 2020.



**48%** of respondents reported interest in investing in **productivity software** in 2021, compared to **28%** who said they've invested in **productivity software** in 2020.

## Top sectors with the most investor interest in April 2020\*:



**1.**  
Healthcare



**2.**  
Remote work solutions



**3.**  
Logistics

## These sectors remain popular in September 2020; however, investors also showed more interest in productivity software:



**1.**  
Healthcare



**2.**  
Remote work solutions



**3.**  
**Productivity software**



**4.**  
Logistics

*\*Data collected from 500 Startups' 'The Impact of COVID-19 on the Early-Stage Investment Climate Survey,' April 2020*

## Conclusion

Our survey results indicate that the investment climate has taken a shift, with many respondents reporting investment activity remaining the same as planned prior to COVID-19 or even increasing, and valuations as expected or higher than expected. Deals are still happening, and investors are interested in industries that solve problems brought on by COVID-19. They are looking for innovative companies across healthcare, remote work, productivity, logistics, and mental health that can address the challenges of today and tomorrow.

However, investors appear to be becoming risk-averse as there are strong indications that pre-seed investments will fall in the new year, with seed-stage investments remaining more or less the same. While most VC firms indicated their investment activities remain roughly the same, approximately one-quarter of angel investors and family offices said that they've increased their investment activity since COVID-19 began. By contrast, three-quarters of Corporate VC respondents said they will be investing significantly less in the coming year.

500's Director of Corporate Innovation, Vijay Rajendran, highlights this shift, noting, "We know from research in our [Unlocking Corporate Venture Capital Report](#) that half of CVCs are investing off of the balance sheet. With the COVID-19 Pandemic and recession today, that balance sheet has a hole in it, meaning those CVC teams have a hard job to do to secure resources and keep investing. It's no wonder we see this pullback. The pandemic is fast-forwarding us to the future, so investing in future technologies and business models is now more, not less important. If you are a corporate that wants to invest now, the timing is great. Your peers may be sitting this out while good startups are building the future.



There are still mixed sentiments on current valuations (as of Q3 2020) which may indicate that we have yet to see the full magnitude of COVID-19's impact. 39.3% of investors said that they feel valuations are currently higher than they expected, 40.6% said valuations are on par with their expectations, and 20% said they feel current valuations are lower than expected. COVID-19 has compelled the entire venture capital community to reassess investment activities, including how and where to invest in both the short-term and long-term, and to re-focus on solving problems directly related to the crisis. At 500 Startups, we will continue to provide ongoing resources, programs, and [insights](#) to support the global startup community. For more information about the impact of COVID-19 on early-stage investing, download part one of this survey from April 2020 [here](#).

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