GEMM Insights

START-UPS ECOSYSTEM TRENDS & DEVELOPMENTS

13TH EDITION

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Introductory Message

Dear reader,

GEMM Insights 13th edition will focus on the developments relating to start-ups global ecosystem, giving particular emphasis to European start-ups.

The global startup ecosystem has witnessed tremendous growth and innovation in recent years, fuelled by technological advancements, shifting consumer behaviours, and an increasingly interconnected world. Since the pandemic tech companies have grown 2.3 times more than non-tech businesses

Technology does not only drive economic growth, job creation and innovation but is also contributing towards finding sustainable and green tech solutions for protecting and saving our planet.

The five major startup ecosystems in terms of ranking are Silicon Valley, New York, London, Los Angeles and Tel Aviv. Some major start up ecosystem hubs including Seoul, Berlin and Singapore have risen substantially in their ranking with Singapore entering the top 10 for the first time. North America continues to lead global ranking with nearly 50% of the top 30 ecosystems with Asia slotted in second with 30%.

The top 5 global startup trends in 2023 are the following:

- Accelerated digital transformation
- Inflation and supply chain security
- Sustainability
- Immersive customer experience
- The talent challenge

We hope that you will find our newsletter interesting and useful and welcome your feedback.

Yours faithfully,

George M. Ioannides

Founder & CEO

Introduction to Startups

Introduction to Startups (1/3)

Startup definition

A startup business venture that is typically in the early stages of development. It is often a small business that is in its infancy and had yet to become profitable. It may also refer to any type of new venture, whether it is a small business, a product launch or an online platform. The term startup is often used to describe companies that are just beginning and have yet to gain traction.

Startups are typically characterised by rapid growth, experimentation and risk taking. Startup companies often have limited resources and operate with limited budgets, which makes them more vulnerable to external factors such as market trends.

Market trends can have a significant impact on startups. These trends are determined by the forces of supply and demand for products or services that a startup provides.

In order to stay competitive in today's rapidly changing markets, startups need to be aware of the current market trends and adjust their strategies accordingly. They must also be able to quickly adapt to changing market conditions in order to survive and thrive. A key factor in determining success for startups is their ability to identify upcoming market trends and capitalise on them before their competitors do.

Startups must also be agile enough to take advantage of emerging technologies and adopt quickly to changes in the industry landscape as well as to be in apposition to establish strong relationships with customers and build trust with them in order to secure long-term profitability and sustainable performance.

Types of startups

Startup companies come in a variety of shapes and sizes, ranging from solopreneurs who are just getting started to venture-backed businesses with teams of employees.

Regardless of the size and scope. Startups share common characteristics that enable them to capitalise on market trends. What makes startups unique is their ability to be agile, flexible and adaptive to market trends.

Some of the main types of startups are the following:

Bootstrapped startup – This type is generally self-funded and relies on the founders' resources, without having to rely on outside funding.

Venture-Backed startup - These startups are typically funded by venture capitalist and angel investors who provide capital in exchange for equity in the company. This type of startups require more resources than a bootstrapped startup, as venture capitalists and angel investors are typically more risk averse and require detailed business plans and projections before investing.

Corporate startups – This type of startups has gained popularity in recent years. These are typically launched by large companies that are looking for a way to innovate and stay competitive in their respective markets. This kind of startups have usually access to more resources than other type of startups, as they typically have established customer bases and access to corporate resources such as marketing budgets and human capital.

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Introduction to Startups (2/3)

Startup stages

While the definition may vary, the stages startups go through are generally similar. Knowing what to expect during each stage of the startup process can help entrepreneurs to make better decisions and be better prepared for the journey ahead.

The definitions for the stages of development based on Venture capitalist publications are as follows:

Startup stage – Start up stage investments typically are made in enterprises that are less than one year old. The venture funding is to be used substantially for product developments, prototype testing and test marketing.

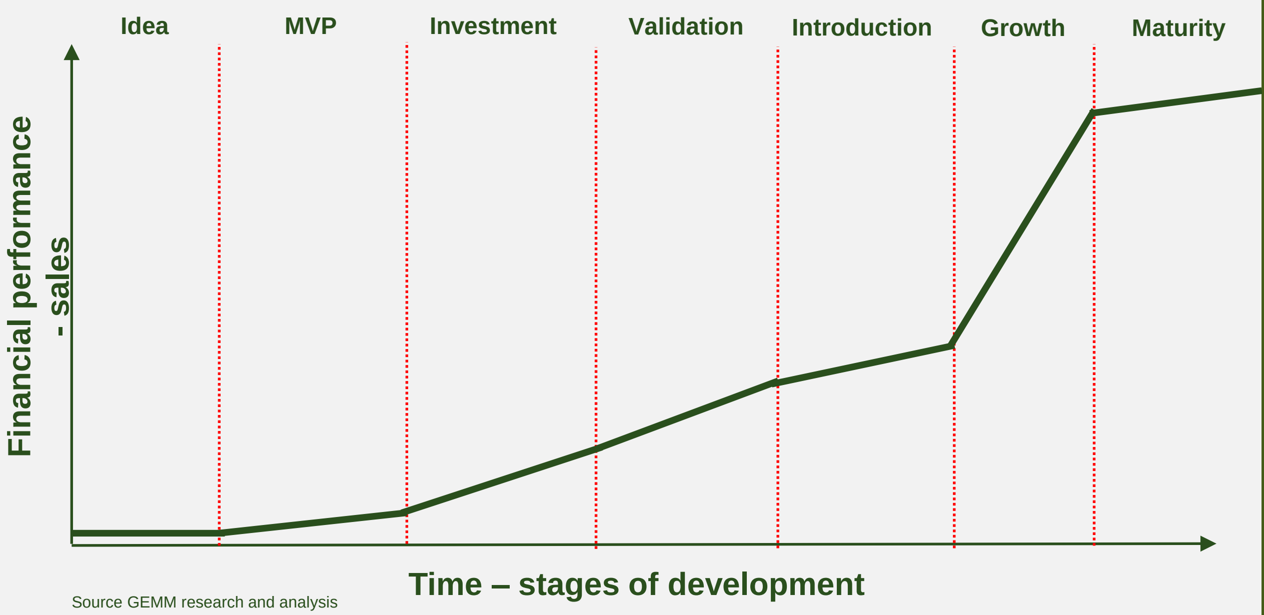
First stage – Early development stage investments are made in enterprises that have developed prototypes that appear viable and for which further technical is deemed minimal, although commercial risk may be significant.

Second stage – Enterprises in the expansion stage usually have shipped some product to consumers (including beta versions).

Bridge / IPO – Bridge / IPO stage financing covers such activities as pilot plant construction, production design, and production testing as well as bridge financing in anticipation of a later IPO.

Overall, market trends pay an important role at each stage of the startup process. By understanding how market trends can impact their businesses, entrepreneurs can make better decisions throughout the startup journey and be better prepared for success in today’s competitive business environment.

The graph below illustrates the startup lifecycle from ideation stage to maturity stage.



Source GEMM research and analysis

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Introduction to Startups (3/3)

Market trends

It is important for startups to consider current market trends and how they will impact their business as they grow and evolve.

The major trends that have a material impact on any startup growth and development are the following:

Consumer demand – Consumer demand is always evolving and changing, and startups should be aware of what their customers are looking for and how this will impact their product or service.

Competitive landscape – Startups need to find a way to differentiate themselves from its competition. This could mean introducing new products or services or finding ways to market and promote their offerings.

Technology – Technology is constantly changing, and startups need to keep up with the latest advances in order to stay competitive.

Industry regulations – It is important for startups to understand any industry regulations that may affect their business in order to ensure compliance and avoid potential legal issues.

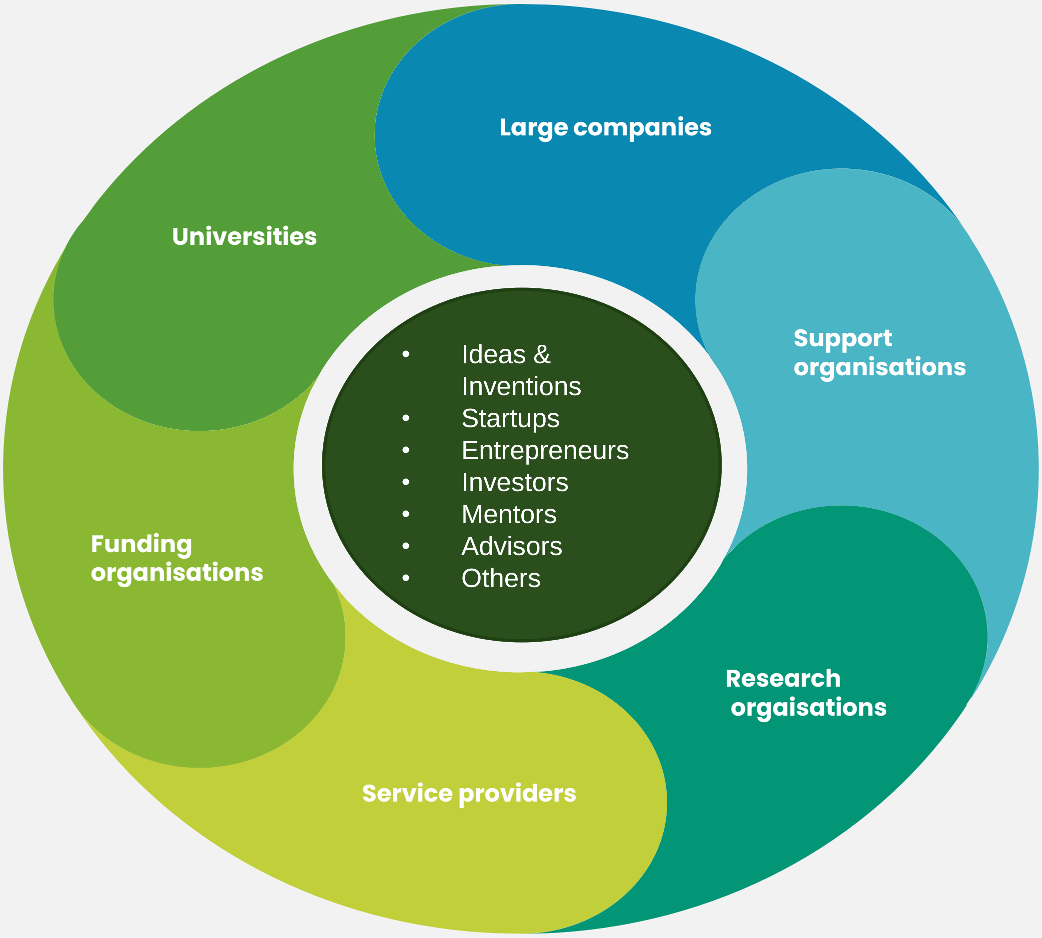
Startup ecosystems

Startup ecosystem (1/2)

What is a startup ecosystem

The startup ecosystem is an increasingly complex and interconnected web of organisations, institutions and individuals that all have an impact on a new business. From investors, incubators and accelerators to mentors and advisors each element of the ecosystem plays an important role in the success of a startup.

An ordinary startup ecosystem is graphically illustrated as follows:



Source GEMM research & analysis

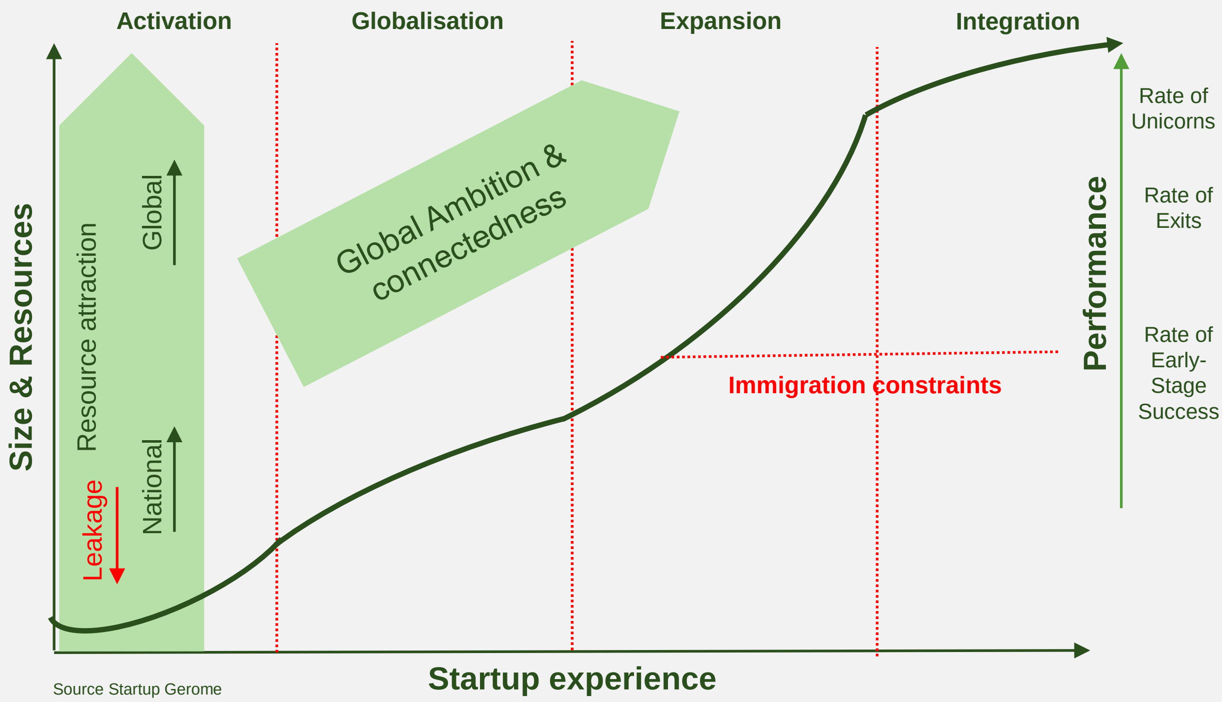
Understanding the nuances of the startup ecosystem is essential for entrepreneurs looking to start their own business. One of the most important aspects of the ecosystem is the impact of market trends. Market trends are changes in the overall industry or sector than can have a profound effect on startups and their chances of success.

Startup ecosystem (2/2)

Startup ecosystem lifecycle

With the rapid growth of the global startup revolution, more and more regional and national governments are investing to try to accelerate the growth of their startup ecosystem. Our research on startup ecosystems has been based on Startup Gerome which has developed the science of startup ecosystems and uses it to advise more than 40 governments to increase startup success.

Startup ecosystems develop through four stages, each with different set of characteristics, challenges and objectives.



Source Startup Gerome

Activation stage – In the activation stage, the majority of investments focus on early stages startups. The local size of startups is less than 1.000 (i.e., low startup output) and Is mainly characterised by limited startup experience and early-stage funding (i.e., Seed & series A funding).

Globalisation stage – In this stage the local size of startups ranges from 1.000 to 3.000. The main characteristics of this stage are the increased startup experience matched with cross border interactions with other ecosystems. Furthermore, successful unicorn startups begin to emerge.

Expansion stage – This stage is characterised by a deepening of experience throughout the ecosystem and the diversification of resources. The local size of startups is usually in excess of 3.000.

Integration stage - This stage corresponds to the phase where experience and resource access reaches the peak level. The local size is in excess of 5.000 startups.

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Global startup economy state

The state of the global startup economy

Global startup economic overview

2021 was a benchmark year for tech startups, with widespread global growth. The trend continued through the first quarter of 2022, after which the impacts of global conflict, supply-chain disruptions, the European energy crisis, and rising inflation and interest rates led to uncertainty and unstable markets. However, midway through 2023, inflation is slowing, and economic growth appears to be holding up.

For more than a decade, near-0% and even negative interest rates proved a safe haven for startups with ample VC funding sources. This led to the overvaluation of startups, generating record funding and exit valuations, and a high number of unicorns. However, the 15-year era of low interest rates and increasing valuations came to an abrupt end in 2022 where rising interest rates have impacted the rate of return among startups, causing investments to retreat.

As traditional VC markets cool and capital becomes harder to raise, many startups consider crowdfunding, debt and loans as alternative financing options. Meanwhile VC investors are holding on to cash reserves to invest in startups after years of low interest rates.

The outlook for new startups, though, is not so bleak. While late-stage startups funding dropped sharply in 2022, and inflated late-stage valuations underwent a correction, early-stage funding remained relatively stable. It has been noted that VC investors are turning their attention toward proving seed funding as they look for innovation in new startups.

Globally, although fewer startups were funded in 2022, they received larger sums. 2022's downturn was also evidenced by the declining number of unicorns, recording a noticeable decline of approximately 40% from 2021 recorded level of 595 unicorns. Asia and North America experienced the largest decline of 46% and 45% respectively while Europe on the other hand increased its share from 14% to 20% (source: Startup Gerome).

The need to maintain startup investments

Despite the current economic, energy and socio-economic related challenges, startups still have a unique position in the global economy, providing an opportunity to address important socioeconomic problems and open new avenues for growth in both developed and underdeveloped economies.

As threatening as the slowdown appears, tech stakeholders still keep level heads and continue to build innovative companies that make a positive contribution not only to economic growth and job creation but also towards creating sustainable and eco-friendly products and services.

Despite of all the volatility in this current and previous downcycles, markets recover. Much of the recovery is attributed to entrepreneurs who are responsive to the downturn and looking for specific solutions. Such solutions are in most of the times discovered by startup companies.

Europe regional insights

Europe regional insights

European startup funding

Investment into European tech startups is set to fall by 39% in 2023, according to data from venture capital firm Atomico, as the pain in global tech continues.

Funding for Europe's venture-backed startups is forecast to decline from US$83 billion in 2022 to US$51 billion in 2023, Atomico said.

The main reason for this drop in funding is the retreat from US investors. Previously, American funds have been a significant driver of funding activity in Europe and several notable VC funds in the US have set up offices in London to increase their investment in the European region.

Another reason for the drop in funding is the brutal year for the technology industry during 2022. In particular the investments for private tech startups in Europe declined by 22% to US$83 billion in 2022 from US$106 billion in 2021.

It is worth noting that, even though the amount of funding for early-stage startups was down by 15% in 2022 compared to 2021, the average early-stage deal amount was up by 7%.

European Fintech sector

Fintech has become a major European sub-sector. Checkout.com and Revolut are the two most valuable VC backed companies in Europe.

During 2022, Fintech trended downwards, possible influenced by the prospect regulations to be imposed over data, security and the financial services industry and the general worldwide economic and energy crisis downtrend.

European policies & regulations

Several European nations (e.g.., Spain and Portugal) have implemented policies and "startup laws" aimed at attracting and supporting startups. Brussels has pushed through two major bills that increased regulation for high-tech companies such as the Digital Services Act ("DSA") which is relevant for startups as it emphasises transparency and moderation. Furthermore, startups utilising Artificial Intelligence ("AI") will be affected by planned regulations which aim to ensure safer and more trustworthy AI.

European top & emerging ecosystems

	Top 5 ecosystems		Top 5 emerging ecosystems
1	London	1	Copenhagen
2	Berlin	2	Barcelona
3	Amsterdam	3	Dublin
4	Paris	4	Manchester & Liverpool
5	Stockholm	5	Brussels

Source Startup Gerome

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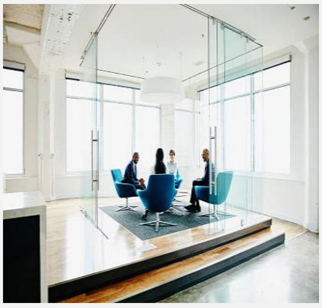
GEMM's tailored made solutions

How can we help

At GEMM we can provide practical guidance and help you navigate the challenges your business is facing.

Our tailor-made start-up solutions comprise of the following:



Investor services

- Feasibility reports
- Financial modelling & scenario analysis
- Appraisals & valuations
- Mergers & Acquisitions ("M&A") opportunities
- Market research & analysis

Start-ups advisory services

- Preparation of business plans and investment documents (i.e., Teasers, Information memorandum etc.,)
- Development of financial projections / financial modelling
- Business valuation to support capital raises or investment decisions
- Valuation of intellectual property ("IP") including patents.
- Derivative valuation

Credentials

Details of some of our most important and key credentials are illustrated below:

Private Equity

External Valuer ongoing engagement for a portfolio of tech. start-up companies

Online gambling

Equity valuation report for capital raise

Agricultural start up

Intellectual property ("IP") valuation

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