



SEI VENTURES

Global Insights

Venture Capital and the Impacts of COVID-19

Over the past few weeks, we've had discussions with startups and fellow investors around the world about today's unprecedented environment and the impacts brought on by COVID-19, along with the likely ripple effects this may have in the near-to-intermediate future. Several common themes and top-of-mind focus areas have surfaced, including deployment of capital, impact on the fintech landscape, changes to sales and fundraising processes and more.

Innovation has always been part of SEI's DNA. As strategic investors, we believe in leaning into disruption in order to glean the forward-looking ideas that invariably arise during times like these. In fact, this is the motivation behind our SEI Ventures investment thesis. It's what drives us to find the game changers who are creating meaningful solutions to today's most-pressing fintech challenges.

To that end, we posed five key questions to five VCs and key players to find out how they are moving forward during the current crisis. Our contributors come from a variety of different geographic regions and domains within the startup ecosystem.

The Questions

- 1.** In 2008, our society faced a major financial crisis. Today, COVID-19 has brought on a different kind of crisis—a health crisis—with enormous economic impacts. Are there any lessons learned from the 2008 crisis that have made you more prepared to navigate today’s uncertainty?
- 2.** How have these circumstances impacted your lens for evaluating companies and potential investment opportunities?
- 3.** What do you think the fintech startup/VC ecosystem will look like 12 months from now?
- 4.** How are you supporting your portfolio companies through this period of uncertainty?
- 5.** How do you help yourself and your teams stay positive during these unprecedented times?

The Contributors



Tim Guleri
Managing Director
Sierra Ventures



Atul Kamra
Managing Partner
SixThirty Ventures



James Mawson
Founder of Mawsonia and its publications:
Global Corporate Venturing, Global Impact
Venturing (GIV) and Global University Venturing



Dean Miller
President & CEO
Philadelphia Alliance for Capital and
Technologies (PACT)



Katherine Wilson
Investor
Illuminate Financial



Question 1

In 2008, our society faced a major financial crisis. Today, COVID-19 has brought on a different kind of crisis—a health crisis—with enormous economic impacts. Are there any lessons learned from the 2008 crisis that have made you more prepared to navigate today’s uncertainty?

Tim Guleri

On a macro level, what is happening now with the coronavirus pandemic is something that has tremendous human impact, resulting in tragedy and human hardship. It is a once-in-a-lifetime event that we believe the world will learn a lot from.

We’ve learned from previous crises that downturns can be quicker and deeper than expected, but more importantly, can last longer than expected. As such, it is necessary to run a business while anticipating all of the downside scenarios. With this in mind, we are advising our companies to “control the controllables” (i.e., expenses) and have a neutral outlook on new sales until we see the economic climate change for the better.

Katherine Wilson

The biggest lesson we can draw is that flexibility is key. In any crisis, we never know at the outset how long it will last, the extent of the ripple effects or what the lasting changes will be. The only thing we can be sure of is that there will be change. For any company navigating their way through this, those that are nimble, can adapt, and position themselves to take advantage of the opportunities that arise, will come out the other end stronger. All of this only holds true if your business can survive, so if you are a startup or fast growing company—having enough cash to weather the storm and flexibility are often synonymous.

Dean Miller

As an avid skier, I love the phrase, “Don’t get out over your skis!” This is effectively what led to significant economic impact in 2008—the mortgage industry got out over its skis. And we soon realized that they were not the only industry exposed. I have been in the venture business since 1998—long enough to have experienced both the dot-com bubble and bust of the early 2000s and the Great Recession of 2008. We were better prepared in 2008 than in 2000, and I suspect we will have a quicker recovery in 2020 than in 2008. Why? We learned the hard lessons of getting out over our skis. In other words, we, as investors, became conditioned to watch our companies’ burn rates closely. Did this always happen? NO! But it has happened with more regularity currently than during the periods leading up to the previous economic traumas.

The other big takeaway is this: in emergency medicine, your first instinct is to save the sickest. This often takes an enormous amount of limited resources (time and capital) and leaves a trail of other companies spiraling to death. Turns out that the right decision in emergency medicine is actually to statistically optimize outcomes (returns) by saving the most likely to be saved first and then moving on if you still have some limited resources left. This is incredibly hard to do as investors (and doctors) want to save everyone, but in a crisis that is just not reality. Investors’ experience from 2008 has taught us this important lesson of saving the most likely first, as well as making the hard decision to not invest additional time and capital when a company is not worth saving.



“...Those that are nimble, can adapt, and position themselves to take advantage of the opportunities that arise, will come out the other end stronger.”

Katherine Wilson



“The question we’ve learned to ask is, ‘Why is it inevitable that this idea/company will succeed?’”

Atul Kamra

James Mawson

Global Corporate Venturing tracks more than 3,000 corporations around the world across all sectors that invest in and support entrepreneurs with their five primary needs of capital, customers, product development, hiring and an exit. The current crisis is exceptional, and so it is hard to read across to 2008-09’s global financial crisis, which was bank and debt driven, then affected the broader economy.

This is a demand shock from people being unable to work, and hence affecting their jobs and what they can buy in order for societies to grapple with the healthcare issue from the new coronavirus. As a result, parallels are challenging, but the broad approach by many of the most professional corporate venturing groups is to make sure they support portfolio companies and be thoughtful in how they approach new deals. Some are looking to do more as competition is reduced and prices ease, but others are having to hit pause as they deal with challenges in parent companies. As a result, engaging with entrepreneurs in other ways than venture capital is important in this light, such as customers and product development.

Atul Kamra

As in 2008, the “instrument panel” that we use to evaluate investments is malfunctioning. The loss of the instrument panel makes it that much harder to read growth prospects, have a line of sight into cash flows, calibrate risk and arrive at value. So, in a crisis, you double down on your reliance on the strategic rationale of an investment, on the basis that the financial rationale will take care of itself over time. The question we’ve learned to ask is, “Why is it inevitable that this idea/company will succeed?” We believe it is critical to test: 1) resiliency and adaptability of business model and business plan, 2) unit economics, 3) leadership.

Yet, 2020 is materially different in other ways. The 2008 crisis was a run on the banks, with a big knock-on effect for the economy. Today’s crisis is a direct run on the economy. The current experience of social distance, resetting of healthcare delivery and dislocation in supply chains is unprecedented. Secondly, this crisis is causing governments, businesses and consumers to think about their privacy and information security in an entirely new light. If it is shown that sharing and using personal data can help safeguard lives and restart economies, attitudes may change around the use of such data. With that, however, comes the need to secure the data and prudently govern it at a scale and in ways we might have imagined but never yet experienced.

Question 2

How have these circumstances impacted your lens for evaluating companies and potential investment opportunities?

Tim Guleri

When it comes to investing in this environment, we are very much continuing to deploy capital and do what we love—find and support great entrepreneurs to build world-changing businesses. We believe that seed and series A investments (our sweet spot as a firm) have the potential to do really well during this time. As we've seen before, some of the best companies were born during the 2000 and 2008 recessions. The COVID-19-infused environment has accelerated the reliance of not just work, but education, entertainment, health and other verticals on the use of internet-powered technologies. This will have a profound and long-lasting impact on those verticals, and many exciting companies will be born and accelerate during these challenging times. It's our job to find, evaluate and invest in those businesses.

Katherine Wilson

As investors, when we assess any company and the opportunity in front of them, a key part is an analysis of the market environment the companies are operating in and selling into. The world has changed post-COVID-19, so we need to look at businesses through a different lens.

In financial services and fintech specifically, our view is that the current crisis will further accelerate digital transitions. Whether this be at the consumer-facing end (Could you even use physical cash right now if you wanted to, or go into a branch to process a document?), or at the enterprise level, which is where we focus as a fund. Manual processes, which were inefficient but could still be relied upon, are clearly not fit for purpose. Being able to safely leverage data, and make it more accessible as companies move to the cloud, are other examples of trends we see accelerating.

We think there will be an enormous opportunity for young software vendors who can support larger institutions with these shifts. That said, this will not take place overnight. When we are assessing new businesses, we think sales will take even longer than before, so we are looking to give them 18 to 24 months runway at minimum.

Dean Miller

A lot is written about the companies, products and success stories that have and may emerge from a crisis. Think COVID-19 vaccine or the next "Zoom." For example, Google really emerged after the dot-com bust when AOL had been already crowned the victor! While products, services and technologies are the "horses" of any investment opportunity, the management is the "jockey" that really deserves the most attention in any investment process.

You can tell a lot about management in a time of crisis—how they act or react, and how they communicate with potential investors, customers or their teams. As I get to know key leaders in a diligence process, I watch them closely, as well as the metrics of the company they have forecasted (product development, sales, etc.). In a time of crisis, there are bound to be delays in those forecasts, but a close look can reveal just how valuable the product or service is in the market AND how effective (or not) the management team is on executing under a high degree of stress.



“ You can tell a lot about management in a time of crisis—how they act or react, and how they communicate with potential investors, customers or their teams. ”

Dean Miller



“ When it comes to investing in this environment, we are very much continuing to deploy capital and do what we love—find and support great entrepreneurs to build world-changing businesses. ”

Tim Guleri

James Mawson

There is a shorter-term focus on entrepreneurs who can support business units in their immediate issues through the new coronavirus. But many are still keeping their eyes open for longer-term strategic trends and issues.

Atul Kamra

Our team uses a SixThirty Vulnerability vs. Impacted (V-I) framework to assess the resilience of the overall portfolio and individual companies. Vulnerability assesses the condition going into the crisis (e.g., cash-on-hand, runway). Impacted assesses the impact the crisis might have on the business, business model and team. Evaluating every portfolio company with this framework is a rigorous exercise—equal dosage of facts (e.g., cash-on-hand), estimates (e.g., customer retention) and intuition. The nature and type of near/medium term actions and support a company needs to take vary on where they lie on the Vulnerability-Impacted spectrum.

Given our focus on enterprise technology and the strategic investors/partners that work closely with our portfolio companies, we've gone back to reevaluate where the priorities of our partners lie in this new environment. Our lens to potential investment opportunities will be informed by these changing priorities. We believe there is a coming wave of actions and opportunities to rethink product, service delivery and form factor, and an equally big opportunity to re-map the customer journey across wealth, health and insurance.

Question 3

What do you think the fintech startup/VC ecosystem will look like 12 months from now?

Tim Guleri

We believe we are moving into the phase between shock and adjustment right now, and we are hopeful that 2021 will bring us closer to the “new normal.” As with previous downturns, we believe only the most resilient and most passionate entrepreneurs will stay in the fray. There will also be a premium for capital-efficient deals, and investors will be looking harder at how much capital will be consumed by companies within the next 18 to 24 months.

Katherine Wilson

The balance of power has definitely shifted back towards those with capital. In the run up to 2020, we saw lots of “hot deals” and competition pushing up the valuations being paid for businesses with limited traction but going after a large-market opportunity. VCs were having to work hard to differentiate themselves and prove their value to founders. While I still think that not all capital is equal, and that founders should think carefully about what else an investor can bring to the table, being in a position to pick and choose will be a luxury for most. The other point to add is that in any crisis, there tends to be a flight to quality. This is something we see in all asset classes, not just VC. For startups, I think this will mean a lot more focus on cash generation and unit economics over growth at all costs.

Dean Miller

I have invested in the fintech space historically but spend most of my time currently in healthcare (medtech and digital health). For fintech, I see continued opportunity for startups as big institutions seek opportunities to be more nimble in planning and execution. Mobile payments, AI-driven financial planning and security are all still developing opportunities for investment. I do think our current pandemic will drive changes in consumer and business behavior that will have long-lasting impact on adoption of new technology (mobile payments, for example) as well the emergence of brand-new products. I am bullish on the space and tracking a few companies that I think are ripe to blossom.

James Mawson

Payments and fintech have been on a tear in the first quarter of 2020, with big deals announced as exits and investments. With lockdowns taking place in many countries, the digital economy continues to take off and is effectively speeding up the longer-term trends for how all parts of finance are affected. In a year’s time, therefore, I’m not anticipating fewer deals at lower multiples because unlike 2008-09, banks and other incumbents are relatively well capitalized and keen to acquire or invest, and the strategic implications of missing out are too large to ignore.



“ The scale and pervasiveness of the pandemic creates room for bold, disruptive ideas. ”

Atul Kamra



“ The digital economy continues to take off and is effectively speeding up the longer-term trends for how all parts of finance are affected. ”

James Mawson

Atul Kamra

We look at the fintech startup/VC ecosystem along several dimensions, including:

- › **Quantity and quality:** The headline expectation is a lower aggregate number of new investments and lower overall capital deployed. Volume will drop, and there will be a flight to quality. Quality deals will get done, and not necessarily at lower prices. Lesser quality deals won't just clear at lower prices; they will likely fail to attract capital. But we do not think such headlines should be viewed negatively. Venture capital has grown to new heights over the past decade, and rigorous due diligence has taken a back seat to FOMO (fear of missing out). This shift may benefit thesis-driven investors and entrepreneurs who are motivated to solve real problems arising from the crisis. With acceleration in digitization across industries, opportunities abound for entrepreneurs.
- › **Collaborative vs. disruptive startups:** Fintech and InsurTech startups are often labeled as disruptive or collaborative, but we believe these labels might blur. The scale and pervasiveness of the pandemic creates room for bold, disruptive ideas. At the same time, we see incumbents recognizing a need to be resilient, innovate and transform. We believe this may create greater readiness and risk-tolerance amongst incumbents to collaborate with startups and/or accelerate existing involvement.
- › **Industry structure and convergence:** COVID-19 has hurled a perfect storm at our sense of personal well-being. And one thing is certain, the pandemic and its fallout have highlighted how intertwined our medical and financial well-being and privacy are. We expect entrepreneurs to set out to build holistic solutions addressing common problems across industries and the value chain.

Question 4

How are you supporting your portfolio companies through this period of uncertainty?

Tim Guleri

One-on-one calls with our founders and key executives have been a priority for our whole team. Helping companies navigate SBA loans and other financial resources has been a top initiative, given the complexity of the process. We've also had discussions with our companies around adjusting sales and financial forecasting given the new environment. We continue to support companies on their messaging and marketing strategies to ensure communications reflect the proper care and concern for the current situation.

Finally, we are doing frequent check-ins with our CEOs to ensure that at a personal level they are staying positive and playing offense, not defense, during these turbulent times.

Katherine Wilson

The first thing we did with all our portfolio management teams and founders was to check in with them to make sure that they and their teams were safe. Happily, they were. The next task was to make sure they could remain operational and work remotely. Younger companies already tend to have more flexible working practices with some staff working from home, so they are, in that sense, ahead of most larger institutions who have a more fixed physical footprint and on-premises tech systems.

With the teams safe and operating remotely, the next task was to examine their cash positions and see how long they could survive with minimal new revenues. The businesses we invest in are all B2B software companies, so although lots of new sales are on hold, we are fortunate that they have a recurring revenue base to help sustain them. We have still looked at various ways to help each reduce their burn rates so they can maximize their runway and keep as many of their employees as possible. Doing this scenario planning gets everyone on the same page, and from this we can work out the best way to support each business.

The final piece to add is that we are stepping up the work we do advocating for our portfolio within the industry. A huge amount of B2B sales is based on trust and, with sales staff working remotely and unable to meet new prospects face to face, leveraging common connections can help give people additional comfort. That's where having a specialist investor or one with strong networks in the market you are selling into can make a big difference.

Dean Miller

I generally think in three realms: people, capital, strategy. On the people front, I strive to be a cheerleader—recognizing that startup company management and teams are working passionate long hours for the equity upside. In crisis mode, I cheerlead extra hard. From a capital perspective, I am hyperfocused on burn, liquidity and near-term capital opportunities. With COVID-19, that has led to extensive work and guidance around the SBA Paycheck Protection Program, where guidance was very essential to maximize outcomes. Strategy can sometimes be thrown out the window in a crisis as the building is burning and people are headed for the exits. I think this is a critical time to focus strategy and be very realistic and pragmatic about near-term outcomes while laying the groundwork for post-crisis moves. Sometimes this means hyperfocusing on one strategy and doing it really well. Other times, this can include “fast-forwarding” implementation of a product on the roadmap that has even more relevance in a time of crisis.



“...we are doing frequent check-ins with our CEOs to ensure that at a personal level they are staying positive and playing offense, not defense.”

Tim Guleri



“...having a specialist investor or one with strong networks in the market you are selling into can make a big difference.”

Katherine Wilson

James Mawson

We are a trade paper, so we have no portfolio ourselves. But in general, it is important to be discussing cash runway and customer issues, implications to home-working, funding needs and how to tap government schemes.

Atul Kamra

SixThirty is hands-on in our portfolio management in “normal” times, actively bringing our expertise and network to help our portfolio companies succeed. In this environment, that support is even more critical. We’ve been in close touch with our portfolio:

- › Emphasizing that relationships are key, now more than ever.
- › Prioritizing their sales efforts and their pipelines, with a focus on increasing the probabilities and challenging the possibilities of closing a deal.
- › Scenario analysis, and building and pressure-testing business and cash flow scenarios.
- › Providing moral support to take courageous, decisive actions. Letting them know that it is OK to overreact.
- › Challenging product development. Rethink the product road map for the challenges at hand and ahead.

Question 5

How do you help yourself and/or your teams stay positive during these unprecedented times?

Tim Guleri

As a firm, we have implemented some fun virtual activities to keep spirits up, including “Meme Monday,” a virtual workout session on Wednesdays and a virtual happy hour on Fridays. We also share tips and tricks via Slack on everything from how to effectively work from home, to how to “hack” getting a grocery delivery slot! We recognize that it’s a difficult time for everyone, and we’re doing our best to preserve our firm culture for the Sierra Ventures “family.”

Katherine Wilson

For me personally, I try not to fixate on things that I cannot control. It is easy to get lost down the rabbit hole of click-bait newsfeeds, which not only waste time, but also make you feel quite helpless to what is going on. When I find myself slipping into this trap, I write down a list of things I need to do, put on some music and work through them one by one. It also helps me to structure the day, which is hard when you are stuck at home and the lines aren’t just blurred but nonexistent!

At Illuminate, we also had a full-team videoconference coaching session on resiliency. We found it hugely beneficial as it helped to highlight the different coping mechanisms everyone has so that we can be better at recognizing where others are, and how to work together through this.

Dean Miller

As a VC investor, I am conditioned to uncertainty and long-term outcomes (no daily mark to market!). I am a glass half-full person like most all of the entrepreneurs I have backed—you have to be able to deal with the mountains that entrepreneurs climb. However, I am also a realist and practical at heart with a strong dose of empathy. Finding the balance is key. I do not always get it right, but I recognize to my teams that my lens may not be their lens and that I may be overly optimistic. I am also a planner, so while I may take a rose-colored lens to a crisis, I am always planning for the worst case. That said, having experienced the previous financial crisis is helpful as there were many success stories from those time periods to relate to current companies. Communication, honesty, transparency—these are hallmarks of leadership in all times, and they are critical during times of crisis.

James Mawson

Have a growth rather than fixed mindset for opportunities, overcommunicate (if possible) and be transparent on the data the business is seeing and execute on delivering to customers.



“Have a growth rather than fixed mindset for opportunities, overcommunicate (if possible) and be transparent on the data the business is seeing.”

James Mawson



“Communication, honesty, transparency—these are hallmarks of leadership in all times, and they are critical during times of crisis.”

Dean Miller

Atul Kamra

This pandemic has been an upheaval for all of us. The changes to our professional and personal lives have been swift and drastic. We are living in a duality:

- › **“Distance is back.”** We are physically apart like never before. This is true at the level of teams, companies, communities and countries, and yet ...
- › **“Distance is dead!”** We are digitally available all the time. The boundary lines between work and home have blurred.

In our digital, “Zoom-first” world, we long for the human connection, and building in time to connect has been really valuable. Weekly team coffee or happy hour has been a great add to our routines, and a chance to get to know people in a new way. And while we’re very aware of “Zoom fatigue,” we’ve encouraged team members to have 1:1 catch ups with each other, without a business objective. We’re trying to meet each team member where they are and be authentic as we experience challenges too. It is critical for our leaders to demonstrate empathy, be vulnerable and genuine and understand that everyone is doing their best under trying circumstances. When we all pull together, help each other, provide support when needed, and continue to be a team that values each member personally and professionally, we create a culture that will not only survive, but grow and thrive as a result of this unprecedented challenge.

Questions?

Contact us at seiventures@seic.com