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The VC Golden Book arrives at an exciting, breakthrough moment. All of us, worldwide, have spent more than a dozen months fighting the pandemic, but with the accelerating vaccination efforts, we now have reasons for hope in the future. Clearly, though, the effects of the crisis remain very serious in numerous other areas: social, economic, political and obviously the health domain.

However, from the investment sector perspective, this was an extraordinarily productive year, with the level of funding and the number of transactions on the start-up market in 2020 exceeding the wildest of expectations. This segment of the economy not only proved to be resistant to the pandemic, but we can say that the pandemic actually helped start-ups to spread their wings in some industries and helped others to pivot. COVID-19 did not have a major effect on VC funds that rely on public funding because those funds had to be invested on the market as planned anyway. This is one of the reasons why last year we witnessed several megarounds that significantly boosted the already historically high overall value of transactions on our market. The situation appears to be more difficult for private funds, who reported slightly fewer investments in the first quarters of 2020 and did not see any rebound until the second half of the year. According to data from PFR Ventures, the fewest transactions were recorded in Q2 2020 (under 20) but in the following quarters this number increased exponentially (approximately 70 transactions in Q3 and nearly 120 in the last quarter).

What lies ahead in the coming months? Q1 2021 data shows that the upward trend will continue and Polish start-ups will be able to rely on funding rounds. On the other hand, funds – both those relying on public equity and wholly private funds – will be increasingly faced with competition, not only on a national or regional level, but also on a global level. International VC players have increasingly been eyeing our region, including Poland, of course – the largest start-up market. The pandemic has played a role in this to some extent.
After moving online, discussions between foreign funds and start-ups are now easier than ever, and pitching online has become the new norm.

An important part of the report is the chapter that describes the crucial stages, from the founder’s point of view, of procuring funding to grow a start-up. Such synthetic and systematic knowledge could be valuable to anyone just getting started on their start-up journey. I would also recommend that those considering a career on the venture capital market take a look at the chapter on working for a VC fund. Top experts, with years of experience in this environment, shared their expertise. They offered insights, among other things, on the background of the people who work for VC funds, and on how funds source top professionals.

I hope that this report will provide a better understanding of the opportunities and challenges faced by the Polish VC market and by the nation’s start-ups. Perhaps Poland will soon be able to replicate the spectacular success in this area achieved in Estonia – a country that has for years been intensively implementing a digitisation strategy for its economy and public administration. On this basis, Estonians were able to build and develop a modern start-up market with global potential – after all, that is where Skype and Bolt were created. Therefore, will Poland soon see its own “unicorn”? We are on the right track to achieve this goal.

Tomasz Snażyk
President
Fundacja Startup Poland
10 key facts from the report
1. 2020 was a record-setting year on Poland’s venture capital market. The invested amount nearly doubled year-on-year, reaching over PLN 2.12 billion.

2. The high overall value of VC transactions was due to three megarounds that secured approximately PLN 900 million in total. 2019 saw one megaround with a value of PLN 344 million.

3. While PFR Ventures’ Q1 data shows a slight decrease in the value of transactions compared to the corresponding period of the previous year (-2.5 percent), there has also been a very noticeable year-on-year increase in the number of transactions (+40.5 percent).

4. In the first three months of this year, 65 VC funds invested PLN 243 million in 93 companies.

5. Pitching online is a direct positive outcome of the pandemic. It has made communication much easier and the entire process much more effective. It has also enabled a significant decrease in the funds’ actual operating expenses.

6. The most active investment funds relying on PFR equity, after operating for more than two years, have invested 40 percent of the investment budget. This means that, at this point, there is still over PLN 2 billion for investments on the market, in VC funds funded by PFR alone.

7. Local funds recently strengthened their cooperation with foreign partners – the share of co-investment with international funds rose from 14 percent in 2019 to 27 percent in 2020.

8. 733 rounds took place throughout the CEE region in 2020, with the total value of the funds at over PLN 1 billion.

9. Acceleration of the growth of the Polish VC ecosystem will continue to largely depend on support from institutional investors such as PFR, NCBR and BGK. However, it is important for our market to be increasingly able to carry out investments using private equity. Nonetheless, this requires incentives and supportive measures for the private market.

10. A factor that could help bring in more equity and stimulate the development of the Polish market are ESOPs – popular in the US, but considerably hampered by the regulatory and legal requirements in Poland. The underlying purpose of ESOPs is to provide an incentive for employees.
Chapter I
2020. What kind of year was it?
2020. What kind of year was it?

The year 2020 will go down in history as one of the most unusual but also the most challenging in modern history in many respects. The consequences of the outbreak of the SARS-CoV-2 epidemic and its rapid spread throughout the world proved overwhelming, and some of the changes forced by the pandemic and efforts to respond to it are probably here to stay. This also largely applies to business, where normal, day-to-day operations were disrupted in various areas. It goes without saying that the effects were not the same in every geographic area and for all areas of the economy. They were also not negative for everyone. For the food industry, tourism, the events industry and the fair and exhibition industry, the pandemic was a blow from which many will not recover. However, there are parts of the economy where growth not only did not halt but it actually accelerated. One such example is the majority of technology companies and the start-ups and funds investing in this market segment.

Data from PFR Ventures shows that 2020 was a record year on the Polish venture capital market. Even in 2019 a significant increase was reported in the value of VC investments in Poland. While in 2018 a total of PLN 156 million was invested in that market, the same market saw a massive increase just a year later – to more than PLN 1.26 billion. It might have seemed that the good streak initiated in 2019 would be disrupted by the pandemic crisis. However, it turned out that the VC market was not affected by the virus – in 2020 the amount invested nearly doubled annually to over PLN 2.12 billion, which is an increase of nearly PLN 1 billion. This was largely due to three megarounds that raised approximately PLN 900 million in total. 2019 saw one megaround with a value of PLN 344 million. Those three largest transactions helped identify the key candidates for the title “Polish unicorn”.
It is notable that, even if we exclude the largest and the smallest transactions from 2019 and 2020, we are still left with 30 percent growth on the venture capital market year-on-year (or 70 percent growth if we do include them). The average value of funding rounds is also on the rise. This is related to the funds’ larger funding tickets, an increase in the value of start-ups and a growing presence of international capital in Poland.

**Key 2020 data**

- **300 companies funded**
- **158 funds engaged**
- **PLN 2.1 billion in equity invested**
- **x 1.7 the value**

*Source: Transactions on the Polish VC market in 2020, PFR Ventures, Inovo*
Therefore, despite such a volatile and challenging market environment, 2020 was the best year ever for the Polish VC market and start-ups. The data clearly demonstrates that our local, broadly defined technology industry is a vital and increasingly strong segment of the economy, largely resistant even to significant and unexpected disruptions. One of the key factors may be the fact that by forcing an unprecedented reduction of in-person interactions, the pandemic boosted and accelerated the rate of digitisation in various areas.

What will things look like in 2021? While PFR Ventures’ Q1 data shows a slight decrease in the value of transactions compared to the corresponding period of the previous year (-2.5 percent), there has also been a very noticeable year-on-year increase in the number of transactions (+40.5 percent). In the first three months of this year, 65 VC funds invested PLN 243 million in 93 companies.

Looking at the data, we also see that the value of Polish funds’ investments on international markets has increased considerably – in all of 2020 it amounted to PLN 101.5 million; yet this figure was easily exceeded in Q1 2021 alone (PLN 139 million).

An important role in these positive developments on the VC market and with start-ups during the pandemic was played by the public entities supporting this sector, such as PFR Ventures, NCBR and BGK. Regardless of the state of the epidemic, the government did not withdraw its support for good projects. For example, as part of the BRIdge schemes, the NCBR put nearly PLN 900 million into the Polish ecosystem.

The influx of public funding on the VC market in Poland will be just as strong in the near future. In Q1 2021, PFR Ventures supported 32 transactions and provided 25 percent of the equity; NCBR was responsible for 14 percent of the equity and 33 transactions; and BGK provided 4 percent of the equity and supported six investments.

The private market also saw a number of interesting developments, resulting, among other things, from the effect of the monetary policy on capital inflows to the VC market (mainly globally but also in Poland, to a slightly lesser extent). Large amounts of money injected into financial markets during the crisis lowered interest rates and, therefore, lowered rates of return on some of the lowest-risk assets. All this caused investors to shift towards higher-risk asset classes, which also benefited the VC market.
The pandemic has helped create the venture capital market

On the venture capital market, the pandemic can be divided into two clearly identified periods: a slowdown of investment activity and its resumption, on an unprecedented scale.

The slowdown period that lasted practically throughout Q2 2020 did not by any means represent a suspension of the funds’ activity. The lack of investment in new start-ups and the suspension of ongoing discussions were the result of the managing companies’ focus on portfolio companies. For some of them, additional financial support was necessary to help them survive a period of decreased revenues or lack thereof. Nevertheless, nearly 58 funding rounds with a value of PLN 169 million took place during that time. This was owing to the young investment teams that remained active and invested equity in brand new start-ups.

Since Q3 2020, we have seen a return to investment activity on an unprecedented scale. Throughout the second half of the year, start-ups raised PLN 810 million – and that’s after deducting three funding megarounds with a value of PLN 250 million each. The funds also clearly defined their interests. It is not surprising that the most popular area of investment was broadly defined health care innovation.

We should note that this is not at all revolutionary. Telemedicine, e-commerce and food delivery are not areas that emerged in 2020. They had been growing consistently in the preceding years, and the pandemic was merely a catalyst for them.

We should keep in mind that start-ups and venture capital investments are high-risk activities. We estimate that approximately 70 percent of our funds’ portfolios bring no return – which means that the companies do not grow as planned or even fail. We cannot be certain whether the start-ups that had trouble securing financing in 2020 might find themselves in a difficult situation a year or two years later. Therefore, the pandemic was a reset for the industry.
2020 was a record year overall for Polish start-ups and for the venture capital market. We expect the coming years to be even better. Even if the sum of investments in 2021 is not much higher than in 2020, the trend is expected to continue in the long term.

In recent years in Poland, we have successfully established the foundations of a venture capital market, and the year 2020 was the culmination of that stage. We are now in the second phase of growth. Investment teams and the businesses themselves that are responsible for Polish innovation have lots of work ahead of them. That is one thing that has not changed.
“Black swan” pandemic investment continuity despite uncertainty

Can the SARS-CoV-2 pandemic be called a “black swan” pandemic? Opinions on this tend to vary. In economic terms, this means an unexpected event which essentially could not have been predicted but which has an immense adverse effect on the economy and society. In theory, the pandemic, and especially its scale, was difficult to predict. On the other hand, it is not the first pandemic faced by humankind. After all, these types of events tend to be recurrent. According to Nassim Nicholas Taleb, scientist and author of the book *The Black Swan: The Impact of the Highly Improbable*, the current pandemic is not a “black swan”. The author claims that the current crisis is a “white swan” or “grey rhino”.

In his view, this is the type of event that, despite having a massive effect on our reality and way of life, was predictable and entirely likely. A distinct feature of a “grey rhino” is also the fact that investors tend to ignore the threat for a long time or underestimate it.

Indeed, in 2020, after years of rapid growth, Poland’s economy encountered a crisis for the first time, even if it was fairly insignificant compared to other EU economies. The estimates published by the Central Statistical Office at the beginning of the year indicate that the GDP has decreased by 2.8 percent compared to 2019.

However, when it comes to the venture capital market and start-ups, the pandemic did not disrupt investment continuity. The data discussed in the report *Startup Poland Polskie Startupy 2020* (Start-up Poland: Polish start-ups 2020) presents a fairly optimistic view of this sector of the market compared to many other parts of the economy. Young, innovative companies continued to attract investors despite the pandemic. Data gathered by PFR Ventures shows that investment continuity was maintained despite some fluctuations in each quarter.
2020 also looked very good in terms of transaction value. We set a record in the average value of VC investments on our market, reporting a 52 percent spike compared to 2019. This signifies an unwavering optimism about the prospects of the Polish start-up ecosystem among investors. In particular, the second half of 2020 was characterised by consistent growth, bouncing back from its low point in Q2. In Q4 the average value of VC transactions in Poland was PLN 4.3 million, which represents a slight decrease from Q3. In turn, the median value of VC transactions in the last quarter of 2020 increased slightly between Q3 and Q4. Due to the sheer volume of pre-seed/seed and ticket transactions, as well as NCBR scheme investment funds, it remained at approximately PLN 1 million.

**VC investments in Poland, 2019–2020**

Quarterly, average transaction value (PLN million)
In a survey conducted for Startup Poland in late 2020, more than one in four start-ups declared that the pandemic did not cause them to change the way in which they operate and thus, that it still relies on pre-pandemic assumptions and plans. In this group of start-ups, the lack of effect of the pandemic on business typically manifested in the absence of layoffs of key employees (43 percent) and proceeding with the implementation of the strategy to enter new markets (41 percent). Nearly one in three surveyed entities indicated that it had maintained financial liquidity. The same proportion noted having maintained the number of customers – buyers of its service or product – in line with projections. Furthermore, 29 percent of them did not report a change in their customers’ loyalty. The same number did not report a drop in sales. While COVID-19 had a relatively small impact on the day-to-day business of Polish start-ups, from their point of view the pandemic did affect the fundraising process to some extent. In this regard, the views of the start-ups surveyed were split nearly down the middle, with 49 percent claiming that the effect was tangible and 51 percent maintaining that they did not feel the effect.

Do you think the coronavirus pandemic has had a tangible effect on the fundraising process?

Source: Raport Polskie Startupy 2020 (Polish Start-ups Report 2020)
However, among those affected by the pandemic in this regard, the consequences were adverse. As many as two thirds (66 percent) declared that during the crisis, funds halted discussions (which does not mean that they will not be resumed). Nearly one in five start-ups (19 percent) faced pressure for a lower valuation than initially assumed from funds conducting discussions at the time.
Not a magnitude 9 earthquake

2020 was a year of immense unpredictability. The situation at the time resembled a looming earthquake – everyone, including VC investors, was holding their breath to see the magnitude of the tremors and trying to adapt to the new circumstances. Luckily for the VC market, it was not a magnitude 9 earthquake, and it did not result in any disruption of investment continuity. 2020 was a record year in terms of the value and number of completed transactions. In Q2, the market faced a drop in the value and number of transactions compared to the previous year. However, this did not mean that the funds decided not to carry them out – they were simply postponed, as demonstrated by the increases in the subsequent quarters.

This was due to a number of factors. Firstly, part of the reason was the nature of the VC asset class itself. Both LP investments in VC funds and VC funds' investments in company shares constitute illiquid assets. In contrast to the public market, the invested monies are “frozen” over the long term. It is not possible to quickly exit an investment in a company or to remove from funds resources that have not yet been invested – they were all subject to a form of lock-up. Secondly, the travel restrictions imposed during the pandemic mainly affected brick-and-mortar sectors. The sectors in which the funds invested typically benefited from the pandemic. All economic activity moved to remote channels that required the use of innovative solutions, that is, segments preferred by VCs. Thirdly, the funds themselves quickly adapted to the new reality and quickly prepared themselves to conduct the entirety of the investment process remotely.

The coming years look even more promising. Low interest rates, no increases on other assets and innovation as a priority of the European recovery plan are all good news for the VC market.

Innovation market pivot during the pandemic

The pandemic was a ruthless check for businesses’ ability to quickly adapt in a rapidly changing market environment. Therefore, for start-ups, who are often focused on solving a single, defined issue that is the basis for developing their products and services, this was an extraordinarily challenging time. Consequently, among the most innovative companies, there is no shortage of examples of broadening or modifying the profile of their core business. One example here is Online Tutorial, which immediately updated their solution so as to allow customers to monitor the actual effectiveness of the processes during the pandemic.
On the other hand, for start-ups that offer mature solutions that support the digitisation of enterprises, the pandemic turned out to be an opportunity for very intensive growth and, therefore, more interest from potential investors. From the point of view of a large corporation, we believe the most potential exists in areas such as HRTech, RPA&AI, telemedicine, KYC, cybersecurity and deferred payment systems.

As a participant of various industry events, even in 2020, we saw new start-ups emerge on the market at an undeterred rate. This came in answer to the rapidly changing business context and a significant acceleration of digitisation in many areas. Therefore, in the next few months of this year, we expect to see many lockdown-friendly and hybrid-process ideas and solutions that will inspire interesting implementations in the area of banking.

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Managing Director  
PKO VC

Grzegorz Pawlicki  
Director of the Office of Innovation  
PKO Bank Polski
Venture capital and the stock market

Scholars from the University of Florida examined the public offerings of VC fund portfolio companies in the years 1980–2020. In total, there were more than 3,300 of such market launches (34 percent of all IPOs), and the funds generated nearly USD 280 billion from share sales, which means that an average exit generated nearly USD 80 million. It is worth noting that (in 2021) VC funds earned USD 388 million on exits, and in 2020 – more than USD 38 billion, which represents a nearly one thousandfold increase. During that period, U.S. GDP increased sevenfold, and the value of VC investments increased seventyfold. The US example illustrates that a well-developed equity market can help multiply the return on investment for those investing in venture capital funds.

VC funds in Poland have at their disposal a well-developed equity market. Their annual investments account for less than 0.09 percent of the GDP, and in the US – 0.65 percent, which means that the US venture capital market is seven times more advanced than the VC market in Poland (taking into account the difference in GDP). The corresponding indicators for the equity market showing capitalisation of public companies in Poland and the United States are 40 percent and 186 percent of the GDP, respectively. The equity market in Poland is, therefore, “only” five times smaller. To achieve similar proportions, the value of venture capital fund investments would have to increase to approximately PLN 3.25 billion annually. This is realistic if fund managers deliver solid returns on investment, in which case exits “via the stock market” could be helpful.

It is worth remembering that the Polish government has for years been the largest investor in venture capital funds. Polska Agencja Rozwoju Przedsiębiorczości (Polish Agency for Enterprise Development), Krajowy Fundusz Kapitałowy (National Capital Fund), PFR Ventures and Narodowe Centrum Badań i Rozwoju (National Centre for Research and Development) have laid the groundwork for the development of high-risk investments
in Poland. Year on year, the share of private resources in the equity structure of VC funds should increase, but it will take years before the industry can function without public funding. As the teams managing funds, and institutions managing public funds, become more professionalised, the allocation of money becomes more effective and efficient.

Cooperation between public and private investors in VC funds and experienced managers results in investments in companies during a high-return phase. Some of them will manage to grow enough for investors on the public market to be prepared to take over the company from existing investors. Furthermore, a listed entity has a market valuation – resulting from interactions between pessimists (sellers) and optimists (buyers). Many companies have already undergone this process, which is why we have Polish “unicorns”, such as Allegro, CD Projekt and LiveChat. It is those listed technology companies with a capitalisation of over USD 1 million that are the vanguard of the Polish economy.

Dr Marek Dietl
President of the Management Board of the Warsaw Stock Exchange
When the pandemic broke out, the expectation was that presenting ideas to investors (pitching) would be suspended. After all, until recently, it seemed obvious that in order to carry out an investment, a VC fund needed to meet with the company in person. However, this limited, to some extent, the interest of international funds (e.g. from the US) in the start-ups in our region – it required a long-haul flight, which not everyone had the time and energy to do. Today this is not a problem, which is a tangible benefit of the pandemic.

Almost all of these communications moved to online instant messaging platforms. Many believe that video-chats are less formal, more open and feel more “human”. Another plus of online discussions is that the entire process becomes much more efficient – the actual operating expenses of the funds significantly decrease. This applies to, e.g. the cost of travel, accommodation and hosting the meetings themselves.

VC funds now hold numerous meetings with companies, and what – just 1.5 to 2 years ago – would have been impossible to imagine, i.e. investments carried out exclusively online, are now common. This marks the elimination of barriers for funds to carry out investments globally in any part of the world. This has another advantage – because of the changes in attitude towards investment discussions, it has become much easier for Polish funds to acquire foreign co-investors, e.g. from North America.

As a result of operating online, Polish funds are now, more often than before the pandemic, competing not only against local entities that have always invested on the Polish or regional market, but also against German and American funds. It is clear that the number of investors keeping a close eye on our region has increased, which translates to larger amounts of money on the market and higher round values. Data from PFR Ventures indicates that the share of international funds in transactions carried out in 2020 was 48 percent, while the share of co-investments between Polish VC funds and international funds represented 27 percent in 2020 (PLN 230 million).

The pandemic has also affected the inner workings of funds – they are more willing to work with partners, experts and associates from other regions and countries that previously would have had no chance of joining their teams permanently. These days, in the era of telework, this is not a challenge for the funds’ day-to-day operations.
Fund representatives often express the hope that moving operations online is a standard that is here to stay. Convenient remote communication strengthens the connection between entities operating in our region and encourages funds to work together. The blurring of lines makes it easier to achieve synergies and build shared values – each ecosystem contributes something unique to the partnership.
**Location becomes less and less important**

At Innovation Nest, we have long focused on investment throughout Europe, and we have held the majority of our meetings with start-ups and co-investors online for a long time. The pandemic has accelerated what we have been seeing for a while – geography and the location of the registered office of the start-up or fund are becoming irrelevant.

**What has changed?**

The fact that, as an industry, we were well-prepared to switch to working remotely does not mean that we were not at all affected by the pandemic. Certainly (especially at the beginning), there was a slight slowdown in discussions with new companies. This stemmed primarily from the fact that funds were spending more time with their portfolio companies, trying to help them respond to the new challenges related to the effects of the pandemic. We also had to update our workflow to ensure effective remote communication and access to information within our organisation.

At Innovation Nest, we have moved all of our operations to Notion, which helped us simplify and streamline many of our processes. We have also made very noticeable changes to how we go about building a network. The absence of events and often the inability to travel severely limited opportunities for spontaneous interactions. On the one hand, all discussions and meetings must be planned in advance, which means that building a relationship takes more time and effort, but on the other hand, the emergence of new platforms like Clubhouse is quickly working to bridge that gap.

**What is here to stay?**

The pandemic has demonstrated that plenty of processes can easily be done online. Founders presenting their project during fundraising video calls has been the norm for us for a while. Opening up to building remote teams and seeking talent essentially worldwide is much more interesting. We believe that the fact that we all had to operate remotely for the past year will help bring about a shift to a more global mindset in terms of gathering financing rounds, team-building as well as sales and business scaling.
The hybrid model benefits both start-ups and the economy overall

It is quite obvious that the coronavirus pandemic has forced all of us to make massive changes in our daily lives. Most of us had to, in a very short time, redesign the way we work, study and spend our free time. However, the changes that occurred in the economy were far more profound – nearly every area of business had to undergo accelerated digitisation. In a dozen or so months, we managed to jump ahead by a few years in this regard.

Many of the companies who had been using digital technologies, like start-ups, who, by their very nature, are more agile and better at adapting to a changing business environment, were the quickest to adjust to the new reality.

Like many companies, Google for Startups, with its Warsaw Campus, also had to transition to online operations in a matter of days. We started working on our main accelerator programme – Google For Startups Accelerators – at a table on the Campus and we finalised it online. What have we learned as a result?

Remote work as the default model reduces the need to travel, which makes human resources more available to become involved in projects. We have experienced this, seeing an increase in the number of international start-ups that were even more eager to apply for the programme conducted from Warsaw. Furthermore, many foreign mentors in the accelerator programme were able to dedicate 100 percent of the designated time to communicating and working with start-ups, without having to deal with the inconvenience of travelling. On the other hand, remote work deprived us of in-person communication, meetings and conversations offline, bonding, creative exchanges of ideas and concepts. Only now do we truly appreciate the importance of informal, spontaneous get-togethers in the business context.

As vaccination rates go up and restrictions start to go down, but also as people grow more accustomed to videoconferencing and online meetings, there are more and more indications that it is possible to combine the strengths of these two models of work into a single, hybrid format that will continue beyond the pandemic.

If we combine the best things about each of these – the ability to communicate and collaborate rapidly, offered by digital tools such as Google Meet or cloud solutions, and the ability to meet and talk in person – which has always been fundamental in building business relationships – there are reasons to believe that we will be able to do business even more effectively, on a global scale.
For start-ups, this means even more access to high-quality talent – whom they can recruit worldwide without having to open offices anywhere – and easier access to global accelerator programmes, mentors and angel investors. It appears that the majority will be open to communicating online, with in-person celebrations reserved for deal closings. For investors, this hybrid model will be just as useful in helping them discover new promising investments and entering new sectors and markets.

I am confident that the hybrid model will benefit both start-ups and the economy as a whole. The sooner we come to accept these realities and learn to make the most of the opportunities they bring, the better we will be positioned in the new reality.

Michał Kramarz
Head of Google for Startups CEE
Google
Megarounds and exits

The years of building the Polish start-up ecosystem – gathering knowledge and delivering it to the market – are starting to have impressive results. Just a few years ago there was only a handful of start-ups that generated revenues of USD 100 million in a matter of five years. Now it is slowly becoming the norm. There are more and more start-ups on the market with very well conceptualised business models, who know what they want to accomplish, have specific funding rounds to raise, and need a specific level of funding.

Share of the largest rounds in 2019–2020

Quarterly, % of the value

Annualy, % of the value

The Polish start-ups that turn to VC funds are slowly beginning to catch up with to world-league players even though, on average, looking at the market as a whole, there is still no comparison to the US or Western European markets. However, we are starting to see companies from Poland raise truly sizable funding. Just a few years ago, our region was not seeing ideas this good. While some claim that the rising prices have no relation to an increase in quality, others say that they are increasing because there is more money in the market, and the money needs an outlet. There are those who believe that projects from a few years ago would have received similar appraisals now.

Source: Transactions on the Polish VC market in 2020; PFR Ventures, Inovo
This in turn could be a symptom of a growing market bubble. The majority view, however, is that the high prices are justified and a result of the improving quality of the Polish ecosystem.

In 2019 we had one megaround on the VC market. DocPlanner – owner of the platform for scheduling doctor’s appointments online – raised investments from several funds (including the UK’s Piton Capital and One Peak, Czech Enern Investment and US giant Goldman Sachs Private Capital Investing), which at the time was a record-setting amount of PLN 344 million. This amount significantly boosted the performance of the market as a whole in that year. 2020 saw an increase in the number of such megarounds.

The largest amount was secured by ICEYE, a New Space industry company (as part of round C). The following companies reinvested in the company in the last series: American funds True Ventures, Draper Associates, DNX Ventures, Promus Ventures, Space Angels, Poland’s OTB Ventures, Finnish Industry Investment (Tesi), the UK’s Seraphim Capital; and first investments were made by, among others, Luxembourg’s New Space Capital and Luxembourg Future Fund. The company, who has at its disposal a lightweight SAR satellite, provides satellite data to its customers for use in the defence and maritime sectors, agriculture, and natural resource management, etc.

In Q4 2020 we saw two more megarounds. One of them concerns Booksy – the company that created an app for booking beauty and wellness appointments, for example, with hair stylists, beauty salons, barbers, massage spas, and recently also outside that sector, e.g. with financial institutions and auto repair shops. Last November, the company managed to secure PLN 266 million as part of Series C, led by CatRock Capital from the United States. The other funds participating in this round were: the Czech Republic’s Enern, Manta Ray (owned by Sebastian Kulczyk), Finland’s OpenOcean, the UK’s Piton Capital, Sprints Capital and Sweden’s Unu Global. Furthermore, after its merger with Versum, Booksy became one of the world’s largest marketplaces in the industry.

Capitalising on the unprecedented interest in online learning tools resulting from the remote learning mandated during the pandemic, Kraków-based start-up Brainly, now expanding its services globally, raised a whopping PLN 302 million in Round D carried out in December 2020. The participants in this round were US funds: General Catalyst, LearnCapital iRuna Capital, Booksy – mentioned in the above megaround, Poland’s Manta Ray, and Dutch fund Prosus. The learning platform Brainly now reports having 350 million users in 35 countries every month.
Chapter II
How much money is there in the market?
How much money is there in the market?

How much money do the funds have left in their accounts?*

Data from last year’s reports and the most recent PwC MoneyTree report shows that 2020 and Q1 2021 were historic in terms of the influx of equity into the global VC market and the number of investments made. Therefore, it is clear that the projections from the start of the pandemic that the market would experience some sort of freeze, that financial liquidity should be maintained and that an investment freeze may be coming, did not come true in the least. What happened was essentially the opposite.

This in turn translates to a larger quantity of money, higher valuations and overall higher investment traffic, both in Poland and worldwide. In addition to the influx of capital, an important factor on our domestic market are the resources coming from the Polish Development Fund, NCBR and BGK. The majority of the funds from PFR have already been distributed to the investment funds, which allows them to invest at full capacity.

The third key factor is the lower barrier to entry to Poland for foreign funds as a result of the pandemic and transitioning to online pitching. This eliminated the barriers to investment by the funds in any region, including ours.

* For transactions using public equity (PFR V, BGK, NCBR).
Public schemes and private equity in 2020

By transaction value

- PFR Ventures: 38%
- NCBR: 29%
- BGK: 21%
- International, private: 7%
- Others: 5%

By number of transactions

- PFR Ventures: 146
- NCBR: 74
- BGK: 32
- International, private: 32
- Others: 26

Source: Transactions on the Polish VC market in 2020; PFR Ventures, Inova
A vast majority of funds relying on PFR funding have already launched, and some schemes have already reached the limit, i.e. allocated all of the available resources, and they are now generating proceeds at VC funds. When it comes to investments by the funds themselves, the most actively investing funds have invested 40 percent of the investment budget after operating for two years. This means that at this point there are still over PLN 2 billion for investments on the market, in VC funds funded by PFR alone. These funds should be distributed to start-ups within the next two years.

The funds at PFR's disposal are part of the broader Program Inteligentny Rozwój (Smart Growth Programme). The same programme is also used by other key entities funding the Polish VC market, i.e. Narodowe Centrum Badań i Rozwoju (Bridge Alfa and Bridge VC funds) and Bank Gospodarstwa Krajowego (NetrixVentures, BraveSeed Fund, BP VC GP1 and BitspirationBooster). VC funds will be able to take advantage of funding under this scheme until the end of 2023.

Of course, there are also funds not tied to PFR, NCBR and BGK operating on the Polish market. There has been an emergence of foreign funds, entirely private funds and angel investments – in total, there may be up to 3 billion or so in resources for investment in the next two years. Local funds have decisively strengthened their cooperation with foreign partners recently – the share of co-investment with international funds rose from 14 percent in 2019 to 27 percent in 2020. In terms of the amount, this was an increase of over PLN 230 million.

Efforts are under way to implement two other initiatives that will help the Polish VC market to bridge the investment gap after the expiry of the existing programmes, which are in effect until 2023. One of them is PFR GreenHub, a fund of funds relying on non-European funds, i.e. not subject to the requirements currently binding on PFR funds. The other one is a European initiative under which PFR also hopes to secure a budget of at least what was allocated in recent years. Public consultation is also under way regarding a new framework – the European Funds Programme for Modern Economy.
There will be more, not less, money in accounts

VC funds relying on equity from PFR Ventures have PLN 2.1 billion (together with private equity) remaining for investments. We are watching the funds’ investment pace, and we will transfer any available resources to other teams. This year alone, we announced investments into two new venture capital funds. We are also launching the PFR GreenHub FoF – a new programme under which funds investing in green innovations will be able to procure a total of PLN 200 million.

Another EU framework, which also includes VC funding, is about to enter into effect. Work on the scheme is already under way at the Ministry of Development Funds and Regional Policy. We have participated in them since the beginning and have been submitting our proposed amendments on the basis of our experience with PO IR funds.

PFR Ventures, NCBR and BGK are not the only sources of equity on the venture capital market. Polish funds also procure funding directly from European institutions and private investors. We are rooting for their success as they play a critical role in stimulating innovation in Poland. Some teams are closing down older funds and their shareholders are choosing to reinvest their equity into other vehicles.

We are also noticing increased activity from CVC (corporate venture capital) funds. For corporations, start-ups were previously largely a way to build their reputation in the innovation ecosystem. These days, marketing and using start-up services is being replaced with investment strategies that help monitor new projects with significance for the business environment.

The market is also increasingly seeing an influx of resources from international funds. Polish start-ups were already at the centre of attention of UK, German and Czech investors, but now there is even greater focus on Poland. Thus far, they have participated mostly in later rounds, from Series A upwards, bridging the equity gap not filled by Polish funds. Now their interest increasingly reaches seed rounds. This means more and more money for start-ups.

Maciej Ćwikiewicz
President of the Management Board
PFR Ventures
NCBR is developing the VC market in Poland

The Polish venture capital market proved to be very resilient in 2020. Despite the economic uncertainty, the value of investments made by VC/PE funds in Polish start-ups was the highest in its history (PLN 2.1 billion) and 70 percent higher than in 2019. Furthermore, data on transactions and transaction participants indicates that the market is becoming more and more professionalised. We estimate that funds operating as part of programmes subsidised by NCBR represent more than one fifth of the VC market in Poland in terms of value, and nearly half of the market in terms of the number of transactions. While most investments were carried out by companies in the IT industry, we are happy to see more projects from other areas, such as medicine, food and IoT. We are also seeing a growing number of investments in the area of CVC, which results from the challenges faced by corporations, and access to capital.

Looking at the VC market from NCBR’s perspective, we expect the next two years to be extraordinarily interesting. Both the funds operating as part of the Bridge Alfa programme and the funds operating as part of the PFR NCBR CVC fund of funds are entering a critical stage in their investment activities. We estimate that in 2021–2022 as part of these two programmes alone, we may see investments totalling as much as PLN 1 billion. This should help establish approximately 400 companies, mainly in the seed stage. We also expect projects implemented as part of investments made in 2017–2020 to begin advancing to further funding rounds on the venture capital market. We have high hopes for the growth of the passive co-investment fund NCBR Investment Fund, which should start making its first investments this year. It is a new type of VC fund starting to emerge on the Polish market thanks to NCBR, and it may provide an interesting alternative both to VC funds and CVC funds, which are interested in higher investments or want to diversify their risks.

Przemysław Kurczewski
Vice-Director
NCBR
Who can access NCBR funding?

Seed? Start-up? Growth? Expansion? Regardless of the stage in the implementation of your project, NCBR is the place to go for technological and business development.

Grants provided in competitions through VC funds and investments of the latter are among the most popular support tools we have at our disposal. As a government agency, we have at our disposal the resources, mostly from the European Funds, and – thanks to more than a decade’s worth of experience and cooperation with business and international partners – the appropriate know-how. We actively identify the technological challenges that need to be addressed today, such as those falling within the domain of the European Green Deal. We also continue to support entrepreneurs and scientists with their business ideas that rely on modern technologies. In supporting start-ups, we take on most of the risk involved in the potential failure of the project.

There are several ways of obtaining funding from NCBR. The most common way is by participating in grant competitions, which provide non-refundable subsidies to cover up to 80 percent of the value of the project. Every year we issue dozens of calls for applications as part of the European Funds, domestic programmes and international programme competitions.

Support (both financial and other) can also be obtained from our VC or CVC BRIdge family fund schemes. More than 50 BRIdge Alfa funds are conducting investment activity in the seed stage in the project segment. The “Alfas” seek out some of the best ideas from scientists and entrepreneurs and support them in the seed and pre-seed stage, when the risk of failure is the highest. So far, they have given an opportunity for growth to as many as 546 start-ups. We expect several hundred more companies to join them before the end of the current EU financial framework.

Project teams and young technology companies may also make their own submissions to the funds directly. A list thereof, together with their specialties, is available at: https://www.gov.pl/web/ncbr/platforma-konkursowa. There are also other bridge venture capital and corporate venture capital funds on the market which invest in technology companies in the growth or expansion stage: TDJ Pitango Ventures (VC), Cogito (VC), EEC Magenta (CVC), Speed-Up Energy Innovation (CVC), Icos III (CVC), and FF VC (CVC). Last year we also launched NCBR Investment Fund ASI SA – a company whose objective is to support start-ups entering the expansion and growth stage, i.e. those that have been pre-approved in terms of their business model, the value of the technologies being developed and the industries in which they operate.
It should be noted that all the funds are conducting investment activity on a continuous basis, so start-ups seeking business and financial support do not have to wait for new competitions to be announced.

Please contact us with any questions at info@ncbr.gov.pl. Explore the opportunities we have created for you. The future happens here.

**How did ticket size increase in Poland? What is the trend at the moment? What’s next?**

Data from the previous two years provides a good illustration of the growing start-up ecosystem in Poland. Year-on-year growth occurred at every stage of funding, with a particularly notable doubling of the figure in Series A (26 transactions in 2020) and a tripling of the number of Series B rounds (six such investments in 2020).

**VC investments in Poland, 2019–2020, by round**

![Graph showing quarterly VC investments in Poland, 2019–2020, by round.](Image)

Source: Transactions on the Polish VC market in 2020, PFR Ventures, Inovo
This stems from an increased number of the earliest rounds, i.e. pre-seed and seed. 2019 saw a significant increase, with 244 seed transactions. This trend, even despite the pandemic, continued in the following year, with 278 such rounds completed. Looking at historical data, the current year can be expected to be even better for early-stage investments.

Just five years ago, a funding ticket was approximately USD 500 thousand. It has now increased to USD 1–1.5 million, among other things, thanks to the NCBR programme resources. It is expected that in 2023–2025 it could reach as much as USD 3 million.

Increasing funding rounds and valuations are also a consequence of the globalisation of the job market, in particular for IT specialists and their higher expectations in terms of remuneration. Start-ups operating in our region are increasingly forced to compete for employees against entities from all over the world, including companies from the United States, where the salaries are much higher. If they want to retain the talent, they must offer appropriate remuneration. This necessitates an increase in funding rounds and, in part, higher valuations.

Many Polish companies are now transitioning from the pre-seed/seed stage to Series A and B, which is an indication of the accelerating growth of the ecosystem. Therefore, we also expect in 2021 an increase in the number of higher rounds. Series A rounds in Poland represent on average approximately USD 5–10 million and they are expected to grow. In the United States, these amounts have increased several times in recent years. In this regard, Europe is working to catch up with the US market, and Poland is working to catch up with Europe; so even in Poland there will eventually be Series A totalling USD 15 million, for instance.
Global trends only for the best

As evidenced by the PFR report, the average value of an investment round in Poland has varied in recent years, falling between EUR 0.4 million and EUR 1.4 million. This is largely due to two factors: a relatively small sample, the number of rounds in our country and the effect of very large rounds on average values. This is confirmed by the median value of a round, which is surprisingly stable at approximately EUR 0.23–0.24 million.

Summing up, while the average values might indicate a decrease in round values in Poland in Q1 2021, I would put more weight on the conclusions from the median that round values are stable. This, however, raises the question why these values are so stable and at almost exactly PLN 1 million, particularly in a situation where round values worldwide, including in Europe, according to Pitchbook reports, have increased dramatically in the past year, reaching record highs in Q1 2021. The answer lies largely is the structuring of the rounds. Firstly, the vast majority of rounds in Poland are still seed/pre-seed rounds. Even more important is the fact that at this stage, the biggest role is played by funds backed by PFR (e.g. under the Starter programme) or NCBR (e.g. under the Bridge Alfa programme), where the size of the round is largely limited by the terms of those funds (fund of funds); in the Bridge Alfa scheme, it is precisely PLN 1 million.

However, the above analyses do not change the fact that there has been a noticeable increase in the value of funding rounds at every stage of funding for the best companies in Poland. What until recently was hard to imagine, i.e. multimillion-dollar seed rounds, has already happened, and I expect to see more of it. There is also an increasing number of very large rounds for growth companies at a later stage of growth, but in Q1 there were much fewer of them than in the previous year. Thus, Poland’s best entrepreneurs and best ideas are set to be on an equal footing with their Western competitors. We can conclude that while statistics do not capture it and it is not yet as obvious in the context of the ecosystem as a whole, global trends (higher valuations, higher round values, etc.) for Poland’s best start-ups have already made their way to Poland.

Wojciech Walniczek
Investment Director
OTB Ventures
The data presented in the most recent Vestbee report indicates that in all of 2020, in Central and Eastern Europe, there were 733 rounds, of which the largest involved: Estonia's Bolt (EUR 150 million in Series D), the Polish and Finnish company ICEYE (EUR 73 million in Series C), and Poland's Brainly (EUR 66 million in Series D) and Booksy (EUR 60 million). The total value of the funds in the region was over EUR 1 billion. Therefore, it is clear that Polish companies’ valuations dominate those of other CEE countries.

Things look similar in terms of the number of rounds in each country. The same report shows the distribution of the rounds in different countries. The top three is as follows: Poland (313 rounds), Hungary (110 rounds) and Estonia (97 rounds).

**Number of investments in CEE countries**

Which VC funds were the most active in our region? The leading funds in 2020 were: Hungary’s Hiventures, Fil Rouge Capital of Croatia, Estonia’s Startup Wise Guys, and CB Investment Management of Slovakia. The other major funds all hailed from Poland: Smok VC, Polish Venture Fund, CZYSTA3. VC, Brave VC, KnowledgeHub and Netrix Ventures.
Why did these specific countries from the region make it to the top three? Experts believe that each of these markets has slightly different characteristics that set it apart from the other countries in the region. Poland is the largest country with the most advanced start-up market, but it also has the largest proportion of investors with ready-to-use capital. This becomes clear if we look at the number of VC funds that invest the most. Most of them come from Poland.

Estonia is a very different but truly interesting case. The large number of very good start-ups is an outcome of the country’s years-long digitisation strategy and the associated legal regulations and market mechanisms. No wonder the country is sometimes dubbed “E-stonia”, to highlight its people’s technological advancement. These strong foundations made it possible to build a number of interesting start-ups. Hungarians, much like Poles, tend to invest quite a lot in the market (with as many as 110 rounds), thus creating the capital to establish and develop the VC and start-up market.

The Vestbee study also shows that the funds in the region were the most likely to invest in AI, big data and blockchain solutions. E-commerce, marketplace and financial and advertising service projects were, unsurprisingly, very popular during the pandemic. Investors also showed great interest in health care and agritech industry entities.
Money without borders

In recent months, especially as a result of the restrictions in place, the investment ecosystem has undergone significant changes. Not only the COVID-19 pandemic but also a change in the way investors are viewed by start-ups and the way start-ups are viewed by investors forced a change in the previously traditional model of cooperation between companies and their investors. Investment processes were significantly accelerated and improved as a result of technology company representatives switching to presenting their ideas online and as a result of investors making decisions remotely. Consequently, more and more domestic start-ups have been abandoning the search for funding rounds in Poland. There is nothing wrong with this. In fact, it deserves praise. Investors from other countries bring with them new connections on the local market and a fresh perspective from a different culture and environment. If a start-up has set its sights on building a global business, this might actually be a necessary step. There has also been a change in the approach of local investors to operating and seeking investment opportunities. These days, we are no longer competing only with local funds. More and more often, we are competing against investors from other European (and other) countries. Conversely though, in recent months, we have noticed that growing numbers of start-ups from the CEE region are seeking capital from Polish VC industry entities. Geographical divisions and boundaries are becoming irrelevant.

What’s next? To adapt to the increasingly competitive investment market, funds, particularly those who only operate locally, will have to change their approach. Firstly, to continue to deliver the best possible performance for investors, funds will have to expand geographically, reaching the best start-ups in the world, starting with those in the CEE and gradually including other geographic areas. Secondly, they will have to focus on improving effectiveness and investment agility. Today, we cannot afford to take weeks to decide whether to invest in a given project or to engage in lengthy, tedious negotiations. They are quickly becoming outdated. In the current reality, the best start-ups secure rounds on their terms over the course of days rather than weeks. We need to be more agile, we need to be more effective, we need to start operating like start-ups – this is my hope for all of you as well as myself.

Tomasz Czapliński
Managing Partner
SpeedUp Venture Capital Group
Chapter III
Employment at VC
What is it like to work for venture capital funds? From the outside, it might appear that it is a closed environment of very wealthy people that is hard for outsiders to reach. However, this is often a myth that is out of touch with reality.

Above all, it is worth noting that typically these are not large entities. On average, they have approximately 10 people on their permanent staff, which includes the partners managing the fund. In a typical structure, in addition to the staff managing the fund and investor relations, and making key decisions, they also employ investment directors who manage the day-to-day implementation of investment processes. Their work, in turn, focuses on supporting analysts, who assess the market potential and the business model of each start-up and who make projections based on analyses about the business prospects of a given undertaking. There is a line of progression for analysts – they start out as juniors and gradually advance to senior positions.

In order to operate, funds also need the support of others, such as lawyers specialising in transactions, strictly financial analysts and marketing specialists. The entire team is responsible for the performance. It is a massive responsibility because a fund handles money entrusted to it by independent investors expecting appropriate return on investment.
Recruitment process in VC funds

In their recruitment process, VC funds typically start by recruiting people from within the network. Only after these people have been reviewed do the funds decide to interview other, previously unknown candidates. On the one hand, recruiting partners recommend specific candidates, and on the other – they are very open during the process, listening to the recruiters about what methods and tools to use, how to approach interview design, process unification or, in fact, how to successfully recruit from the network while keeping the industry's start-up bias to a minimum. During the pandemic, the situation on the job market became much more complicated – despite the projections made at the end of Q1 2020, the job market is now a job seeker’s market more than ever before. There is no longer such a thing as a passive candidate – the average number of recruitment processes per candidate is 4–5 at a given time. Mature start-ups are competitive as employers on the market, and the phenomenon of counter-offers increases. Only 3–4 years ago, working for a fund was an undeniable honour and source of pride. These days, candidates look at job offers from VC funds like many others, treating them on an equal footing with offers from mature and growing start-ups, which provide ESOPs, for example. Without question, the larger and more successful the fund, the better it is viewed as an employer. Crucially, these days, a lot depends on the partners' personal brands – on their network and background, on who they are, on their media appearances and whether they are actually involved in the start-up community. Stereotyping, micromanagement and not treating employees as equal partners is not tolerated in this industry.

As employers, VC funds typically offer their employees a lot of independence. Here, also, it is impossible to overestimate the ability to make rational and brilliant arguments. Proactive and flexible employees tend to be a great fit in the VC industry. Polish VC funds typically employ no more than 15 people. This gives their employees ample opportunities to grow in various directions and work on-site at some of the best start-ups. Focus on delivering a specific result and openness are in particularly high demand. Fund partners typically do understand this, looking at potential partners more in terms of their personality traits, mindset and growth potential than based on their experience alone.

Róża Szafranek
CEO
HR Hints
How do you get into a VC fund?

Finding a job at a VC fund is viewed both as something very appealing and difficult to do. This is partly due to the fact that most funds are small teams comprising mostly partners and very few other individuals. The Polish VC market is still relatively new, and most of the fund management teams are on their first or second fund, and their teams typically comprise fewer than 10 people. It is sometimes joked that the easiest way to get a job at a VC fund is to start a fund of your own.

However, it is important to open the industry to new people and provide opportunities, especially to young people, to enable them to try their hand at VC, decide whether this is the right path for them and gain practical knowledge.

One way to do this is through internship programmes. I consider this to be favourable for both parties. The intern provides support for the fund team in its day-to-day operations, and the intern gains practical knowledge, draws on the fund’s experience and begins to build their reputation in the environment. This trial partnership is also a way to verify how well-matched the entities are for future cooperation. To expand its team or add employees to its portfolio companies, a VC may begin by looking at a database of individuals who had been screened for earlier collaborations.

At SMOK, we are engaged in 101 Fellowship. It is an 8-week programme for young people who want to get into the VC world. It provides them with a knowledge base in the form of workshops and an internship in various funds from all over the world. Because this is an international programme, young people have an opportunity to learn about the VC environment worldwide and build global connections. However, this may make it easier for funds to vet and hire individuals from other markets, which is particularly helpful for funds exiting a local market and looking to expand their geographical reach.
We value curiosity and open-mindedness

In searching for new hires for the ffVC Tech & Venture fund team, we do not follow a specific formula in selecting candidates. Depending on the position, we look for certain skills and strong intellectual curiosity. Of course, a big advantage when working for a venture capital fund is experience in financial modelling or consulting, gained in an international business environment. A good example are Big 4 consulting employees, who, by working on diverse projects, gain invaluable experience in a variety of business aspects and have the analytical mindset to assess investments in qualitative and quantitative terms.

Among soft skills, we highly value openness and a positive approach to portfolio companies. The majority of our work involves communicating with people and participating in meetings, so we greatly value skills in this area. We are looking both for young passionate leaders and for experienced entrepreneurs who have decided to exit their own business. Because of the areas in which we invest, we are looking for people interested in modern technologies. We believe employees with experience in legal and financial analysis could make excellent analysts on our team. They must keep up with the latest developments and look ahead and have an ability to accurately predict trends that will become profitable investments in the next few years.

Mariusz Adamski
Partner
ffVC Poland
Chapter IV
Things founders should know
Establishing a start-up seems simple – all you need to succeed is a good idea and the determination to implement it. However, this is not very obvious, and the founders’ success requires not just a good concept and hard work but also the ability to skilfully navigate the start-up ecosystem, which is essential for scaling ideas regardless of how good they may be. Financial and substantive support from a variety of entities operating on that market is usually essential.

Best way to validate product-market fit? Revenues and the right pricing model
A survey of 1,500 start-ups showed that, on average per year, we spend three times as much time purchasing office supplies (coffee, paperclips, toilet paper) as we do developing a pricing model.

Developing an effective pricing strategy is crucial for the success of every company. Experience shows that this also applies, in particular, to technology companies at an early stage of growth, who, by setting their prices, create a kind of baseline of expectations for the customers.

The most important piece of advice from Marc Andreessen: “Raise your prices”
In his book Tools of Titans, Tim Ferris asks Marc Andreessen, one of the most prominent VC investors, founder of Andreessen-Horowitz, what key message for founders he would put on a billboard. His answer was, “Raise your prices!”. “The main issue that comes up for companies struggling to survive is charging too little for their products. There is a perception in Silicon Valley that the best way to succeed is to charge as little as possible, based on the assumption that when a product is cheap, everyone can afford to buy it, which boosts the company’s sales. However, we continue to see companies collapsing under
the weight of this approach because they become “too hungry to eat”. They do not make enough on the product to be able to hire a professional sales and marketing staff, without whom it is difficult to find customers in the first place. Is your product actually good if people are not prepared to pay more for it? (Timothy Ferriss, *Tools of Titans: The Tactics, Routines, and Habits of Billionaires, Icons, and World-Class Performers*, Warsaw 2017).

**Is your pricing model consistent with your North Star Metric?**
The wrong pricing model will crush your business, but a properly conceptualised pricing strategy may help achieve your short- and long-term goals. A pricing model is an excellent tool to make it easier (or harder) to achieve the NSM.

**The simplest pricing strategy: 10-5-20**
There is no single pricing strategy that works for every case. However, if anyone insists on a universal solution, I suggest the 10-5-20 rule.

1. Your product should deliver to the customer a value that is 10 times higher than its cost.

2. Keep raising your prices by 5 percent until 20 percent of your customers find it “too expensive” to buy.

**Maciej Kraus, PhD**
Pricing Guru
Partner at Movens Growth Equity
A good idea is only the beginning

Of course, an innovative idea or identifying a niche that is missing a tool is a good start, but these are not always necessary for building your own start-up. Many founders do not in fact come up with brand new, unprecedented solutions but simply improve on those already offered by competitors, for instance, or include some added value expected by the users of the solution.

Before we begin to put our ideas into practice, which typically involves expenses, it is worth taking a closer look at the industry in which these ideas would have us operate. Market review – learning about the operations of your direct competitors or broader business environment, discovering the actual needs and expectations of your prospects, finding out whether there is a need for a given product or service – this is all a crucial first step. Without it, it is difficult to assess the profitability of the undertaking as a whole. It is also worth trying at this initial stage to estimate the cost of its implementation and assess what level of financing we will need to get started.

However, it is important to keep in mind that the risk of the service not appealing to the market is always there and is sometimes inevitable, which forces, for instance, a complete change of approach in the next stages in the development of the start-up.

MVP (Minimum Viable Product) is a tool worth deploying in the initial, conceptual phase of establishing a start-up. MVP makes it easier to verify whether it is worth continuing work on a given solution as it is or whether it is better to pivot, i.e. remodel the concept and modify the approach. It is worth remembering that our product or service does not have to be a perfect solution at this stage, by any means. On the contrary – we are developing a product with minimum parameters and testing it on a “live” organism. This gives us an opportunity to gain feedback from actual users, which in turn will help us eliminate the defects of which we were not aware and identify an area for further growth, e.g. the need to add functionality, etc.

The first stage in the operation of a start-up should enable the initial scaling of operations. However, before this happens, founders should define the ways to acquire customers, and thus identify the channels needed to reach their target groups. It is essential to research the venues and best possible means of communication to let potential customers learn about our solution and test it out. The business model we want to use is also crucial here (e.g. B2B, B2C, SaaS, Marketplace, etc.).
This is an opportunity to build initial connections and relationships with the users. Therefore, it is worth optimising operations and seeking the most effective ways of reaching customers. Relying on data and concrete figures, you can start working on the first business model for your start-up, entering pre-defined KPIs (key performance indicators).

**START-UP FUNDING – STAGES**
**Pre-seed and seed**

Completing these initial stages will make it much easier to secure an investor. However, not everyone decides to do this and many rely solely on their own equity at this early stage. Indeed, in a survey conducted late last year, as many as 80 percent of founders stated that thus far they had only used their own funds, supplementing them sometimes with external sources.

**What equity sources have you used so far?**

![Bar chart showing equity sources used](chart.png)

- **Own funds**: 80%
- **NATIONAL CENTRE FOR RESEARCH AND DEVELOPMENT (NCBR)**: 16%
- **AKCELERATOR KRAJOWY**: 25%
- **POLISH AGENCY FOR ENTERPRISE DEVELOPMENT (PARP)**: 32%
- **ANGEL INVESTOR – INTERNATIONAL**: 5%
- **ANGEL INVESTOR – DOMESTIC**: 15%
- **FUNDING FROM UNIVERSITIES OR UNIVERSITY INCUBATORS**: 3% (combined)
- **FUNDING FROM INTERNATIONAL ACCELERATORS**: 3%
- **CROWDFUNDING**: 3%
- **BANK LOAN**: 3%
- **STRATEGIC PROFESSIONAL INVESTOR**: 3%
- **VC – INTERNATIONAL**: 3%
- **VC – DOMESTIC**: 20%
- **CITY HALL / DISTRICT OFFICE / LOCAL GOVERNMENT**: 1%
- **STOCK MARKET (INCLUDING NEW CONNECT)**: 0%
- **OTHER**: 5%

*Source: Raport Polskie Startupy 2020 (Polish Start-ups Report 2020)*

**External financing** allows for the start-up to operate and grow using the profits that remain in the company. Unfortunately, in the initial stage, start-ups generally make minimal or no profit. One form of internal funding is **bootstrapping**, or running a start-up without engaging external funding and strictly regulating the approach to cost generation – often relying on the founders’ unpaid labour.

Relying on your own savings or the savings of your family and friends is usually short-term, but some start-ups operate in this manner even for a few years before entering into discussions with potential external investors.
In fact, this stage is sometimes dubbed **FFF (family, friends, fools)** – for those who believe in the success of the undertaking at the earliest stage.

If the business is to grow rapidly, it usually requires resources, which founders tend not to have. Therefore, they are forced to turn to **external financing**. Fortunately, there are at least a few paths that can be taken, depending on the scale of the needs, preferences and stage of growth. These different stages in the life of a start-up are crucial in terms of selecting the funding path as the needs vary at different stages.

**Accelerator or incubator?**
Both accelerators and incubators support start-ups typically at the seed stage, but sometimes incubators do join the process at the pre-seed stage. The business profile of the two is similar, but they should not be treated as the same types of entities. The key purpose of an incubator is to provide substantive and practical support – it may involve mentoring, assistance with accounting or legal matters, occasional provision of equipment or co-working or laboratory space. Incubators may also help with developing the MVP. An important benefit of incubators is also networking, which can bring real benefits in the future. While incubators also provide assistance in securing funding, they typically do not invest in start-ups themselves.

Accelerators also provide similar substantive support, but unlike incubators, which do not have strict time frames, accelerator programmes are short and very intensive. For this very reason, the start-ups who participate in them are slightly further ahead in their development than in the case of incubators. In addition, they must also meet strict criteria and have in place a specific business plan, which is not required at incubators. Accelerators can also invest in a start-up in return for taking up shares in the company or providing a loan.

The most effective incubator and accelerator system exists in the United States. In Poland, the scale of operations is much smaller. There are also entities, including in our country, that act as both an accelerator and an incubator. Accelerator support does not mean that the start-up previously had to rely on incubator support. However, start-ups going through the incubation stage often smoothly transition into the accelerator programme. Incubators are also often established at universities, where they focus on supporting the ideas generated by master’s students, doctoral students as well as university staff and alumni.
Crowdfunding A group of people contribute what is typically a small amount of money to help with the implementation of a project. As demonstrated by Startup Poland data, crowdfunding is not yet a form of funding that is frequently selected by Polish start-ups (3 percent of the start-ups polled noted that they had used this form of financing). The entry into the Polish market of Kickstarter – the most popular crowdfunding platform in the US – demonstrates, however, that our domestic market still has potential. In the last few years other Polish solutions supporting such a service have also become available, such as Beesfund, Polakpotrafi.pl and wspieram.to.

The biggest advantage of crowdfunding is the fact that during the fundraising process, you can gather feedback early in the process on whether your product or service is generating interest in the broader community – potential customers. However, please note that in order to succeed, a crowdfunding effort must be accompanied by significant founder involvement and a convincing strategy for communicating with donors. Therefore, effective use of crowdfunding requires skill and experience in management and marketing.

In the early phase of the company’s growth, the most common type used is donation-based crowdfunding, which is more flexible for the founders. At later stages, equity crowdfunding, where the shareholders are offered part of the profits from the undertaking, is also popular.

**Angel investors**

Angel investors typically invest their own equity, while also providing substantive support to help with scaling the business and increasing its value, and consequently, a share in the profits. Angel investors are not a cohesive group – the scope of their engagement, whether financial or support in other areas, may vary. The involvement of an angel investor is typically the last step before the next, larger rounds where funds appear. In addition to financial support, they also provide strategic direction and allow start-ups to access their own, often unique, network of contacts.

In exchange, they typically acquire a block of shares in the company’s share capital, but there are cases, particularly at earlier stages in the company’s growth, where the share acquisition is deferred – the investor grants a loan at an early stage with the option to exchange it for shares in the future, when the company’s valuation is higher.

Investments by angel investors typically do not exceed a few hundred thousand zlotys. It is worth noting that there can be several investors at a time. Of course, the size of the investment may vary depending on each
angel investor’s strategy. The degree of involvement in the company’s day-to-day operations also varies; sometimes it is very substantial, in other cases – minimal.

What sets an angel investor apart from VC funds is a less formalised path in the transaction process. As in the case of discussions with funds, here it is also necessary to prepare an investment teaser – a document that (along with a pitch deck) is critical in the process of attracting investors. On the one hand, it does not need to be as detailed as in the case of negotiations with a VC, but it should be as customised as possible for the specific investors to the extent possible. Angel investors often co-invest with funds and are also present in subsequent rounds.

The due diligence process here is also less detailed and more flexible than during negotiations with a fund. Sometimes such investors decide to begin the investment process immediately. In the case of angel investors, specific provisions regarding the timing and form of exiting the start-up are often not required.

Series A and B
By the time a start-up has cleared the seed stage, it typically has the product and is able to offer it to first customers. This is a good time to hold funding rounds.

Series A is a period in which a product or service is being improved by the start-up. The company works to fine-tune every aspect of its operations – customer service, sales processes, financial settlements, production and technology, R&D, etc. This phase requires much larger financial investments – this is typically the stage when venture capital funds appear, but sometimes support from professional investors or angel investors is also used in this round.

VC funds typically make medium- or long-term investments, often for a minimum of three years, but usually five or even 10 years. The earlier the growth stage of the start-up, the greater the risk for the fund. Each consecutive series – and thus each consecutive stage in the company’s growth – brings down the risk and increases the chances of gathering a larger amount.

The rules governing VC investments are similar to those for angel investors. However, while individual investors themselves often act as mentors and advisors to founders, when engaging VC funds, start-ups receive support from an entire team of advisors, providing the company with substantive management, financial and legal assistance. The fund also offers promotion and marketing assistance.
Like Series A, Series B is also typically funded using VC resources. The second round makes it possible to scale the business and enter foreign markets, for example. Broad expansion is typically the next step in the development of a start-up. Series B is a stage that allows for scaling the business. Series B funding also makes it possible to prepare for intensive and broad business expansion.

**Series C and D**
Subsequent funding rounds occur during the intensive growth stage – acquisition and further expansion. By then, the company is very well developed and instead of subsequent rounds, it often decides on an IPO. The investors in these stages are typically **private equity funds**. While VC funds invest in innovative companies at an earlier stage in their growth, taking on a higher investment risk, PE funds focus on more mature companies that have more of a business track record, which in turn involves less of an investment risk but also lower return on investment.

**Exits**
Exiting a start-up investment is a natural consequence of an investment made by an angel investor or a fund. The investor then recovers the capital invested in the company – making a profit or taking a loss. In the end, not all of them are successful – risk is part of the DNA of VC investments. There are several ways to exit: by selling the shares to a professional investor (acquisition – M&A), selling to another financial investor, management buyout (MBO) or market entry (IPO), i.e. selling the shares in a public offering.

The choice of exit path largely depends on the success or failure of the undertaking and on the overall economic situation at the time or the situation on the stock market.
Venture debt enters the Polish market. Alternative to VC funds

As the Polish venture capital market grows, entrepreneurs have additional opportunities for securing equity to grow their businesses. For a few years now, in addition to well-known tools like equity financing, we have increasingly been seeing debt financing products for start-ups, including venture debt funds.

In the United States, venture debt has been one of the key sources of financing for start-ups for many years. It is estimated that approximately 15 percent of all VC funding in the US comes from venture debt funds (i.e., over USD 20 billion annually), and this percentage has been rising steadily every year. A similar situation exists in Europe, where according to various estimates, venture debt represents approximately 5 percent of all VC investments in the region. Due to having a small number of start-ups at an advanced stage in their growth (Series A and subsequent), Poland and Eastern Europe have until recently been overlooked by funds who offer these solutions. With the rapid growth of the Polish ecosystem, the situation has changed. We are now seeing the arrival of both funds from Western Europe and local funds focusing on serving the region.

Why is venture debt so popular in the venture community? Above all, debt financing allows both the founders and the investors in the company to significantly reduce the dilution of their shares, which is essential for raising subsequent rounds of funding. Another advantage of this solution is the option to postpone the next round and buy yourself some time to acquire more customers and thus increase the valuation of the business itself. Furthermore, the process of procuring such financing itself is typically less exhausting than for equity investments. However, it is worth remembering that venture debt and equity financing are solutions that do not compete with each other; they merely complement each other. The right mix of the two products enables the company’s founders to maximise available cash resources to grow the company and reduce the cost of obtaining financing.

Michał Papuga
Investment Associate
at Flashpoint Venture Debt
Key points to keep in mind during discussions with funds

**VC is a partner that will be around for many years – choose wisely**

If you have selected the VC funding path (keep in mind that this makes sense only for some technology companies with the potential to very quickly scale for many years), choosing the right fund for you to help you reach your goal will be one of the most important decisions you will have to make. Do the work that is needed. The most important thing is to make your storytelling, pitch deck and financial model as professional as possible.

Before you get out there and hit up your top-choice VCs, do a test run with your advisors or investors to see if you are well-prepared, keeping in mind what funds focus on when making decisions. You do not have to know the answer to every question about the future of your business (which is impossible in the early stages) but you should be able to convincingly demonstrate that you understand the problem you want to solve, and the solution you have developed with your team will tackle the problem better than its competitors worldwide (at least in the selected area). Make it clear that the team you have built (or will have built after the round is completed) has the skills and experience needed to, at a minimum, achieve the goal of the next funding round. As soon as possible, try to build a list of investors whose profile matches your start-up. Other founders, industry news and tools like Dealroom and Crunchbase can be very helpful. Try to build relationships with those you value the most even before the funding round (ideally, begin to actively pursue the relationships 6–12 months ahead). Look for mutual contacts, review their investment portfolio (you can also talk to some founders to see if they are satisfied with the partnership), and follow them on social media.

Keep in mind that the VC wants to have you as a partner for many years. If it becomes clear early in the relationship that you provide unreliable information, forget about your arrangements with the VC (“I will send you the business model by the end of the week.”) or are grossly negligent in the area of business development, it is certainly a potential “red flag”. On the other hand, you are entitled to “reverse pitching” to see how the VC can help you build an outstanding technology business.

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**Artur Banach**
Partner
Movens VC
How do I get a VC to schedule a meeting with me?

The process of procuring funding is like the sales process, so all it takes is a good product or service offer and the ability to pitch oneself. But what does it mean in practice? In addition to the good product, fundraising is also about building the narrative – the chances of anyone investing in your start-up after just one conversation are minimal, so in order to persuade an investor, you need to build a compelling story.

On average, in a year, a fund receives 1,000–2,000 projects, of which approximately 20 percent receive a meeting invitation and 0.5 percent secure an investment. How do the funds decide whether your start-up will be among the 20 percent of the start-ups that are invited to the meeting? While there is no single magical formula and every fund has its internal processes, there are a few key factors and areas worth using to build an interesting story and increase your chances to secure the meeting with the right investor for your project.

1. Warm intro from another fund, angel investor or fund portfolio company
Let us be clear – everyone is busy and there is nothing better than social proof. The chances that you will open the deck of a start-up that attracted the attention of other investors or your own portfolio company are very high.

2. Founder-fund fit
Before sending a pitch deck to a potential investor, it is worth seeing if the project and the fund are a good fit, i.e. determine what makes a given fund a potentially ideal partner (experience, network, etc.) and see how the start-up fits into the fund’s investment strategy.

3. The team
It is no secret that an above-average team can successfully develop even an average project, whereas an average team can destroy even the best business. Funds invest in people, especially at an early stage, which is why it is important for you to communicate your team’s skills to the investors early on in your interactions.

4. The market
VC funds have fairly specific expectations regarding the size of the market on which start-ups operate: the market must be large – really large! Due to the economics of VC funds, in order to generate portfolio return, each investment should be able to reimburse the entire fund. This typically means that the size of the target market should be calculated in billions of zlotys. Therefore, from the very beginning, every business should be built with an eye to international expansion.
5. The product
Offering a product that is merely a slight improvement on a product manufactured by a competitor typically does not make it easier to find an investor. VC funds tend to look for disruptors, i.e. projects that are at least 10 times better than those offered by their competitors or in a completely different category. VC investors are not afraid of high risk but they expect above-average returns along with it.

5. The timing
Proper timing is crucial. History is filled with examples of revolutionary projects that failed because they emerged too early. Demonstrating that now is the right time for your project will help open the door to your investor.

6. Business model
Investors like to know how you plan to make the money. As odd as it may sound, something we do every day is look at presentations that leave us clueless as to how the start-up plans to make money. At the time of providing the pitch deck or other preliminary materials, we do not expect a lengthy description of the business model, but a succinct presentation of your monetisation strategy.

Taking the above areas into consideration will not guarantee you a meeting, but they will certainly get you closer to one. However, before you decide to contact VC funds, make sure that you fully understand them, i.e. know how they operate, how they make money, how they can help your business, what they will expect in return and whether you want them to be part of your story for the next few years.

Marcin Łączyński
Partner
Next Road Ventures
Dealmaking

Teamwork matters
Securing funding is a complex process for a company to go through. Based on our experience, we can list a few formal criteria that should be met before entering into negotiations.

One of the most common challenges at this stage is the company’s inadequate preparation for the process. Founders, who focus on developing the product itself and building teams, have a tendency to overlook formalities and messy paperwork. It often turns out that intellectual property issues, for instance, are not settled and fully agreed. Therefore, in our view, it is vital to ensure professional legal support. When choosing a law firm, it is important to consider its specialty and experience with VC transactions.

It is much easier to negotiate with funds when the law firm working with the company has ensured that the entrepreneurs are well-prepared for the process. This, among other things, pertains to the formal review of the company, i.e. the due diligence process. In this case, it is also worth assigning one person from the team to create a data room and serve as a contact person for the fund. This really streamlines and accelerates the investment process.

Back to the legal partner – he/she will provide support during the transaction. He/she will take a close look at all the important issues and secure them properly. He/she will be able to explain the provisions of the agreements typically found in transactions with VC entities which sometimes raise concerns among founders. He/she will advise on which provisions are standard on the market and which ones should be viewed as a red flag by businesses.

To ensure the transparency of the process, our recommendation is for the fund and the company to be represented by different legal entities.

Another issue for founders to keep in mind are the differences in the investment processes between various VC funds. There is no single standard in place in this area and the formal requirements of different investment funds may vary. An entrepreneur who has experience negotiating with Fund A must be prepared to have to adapt to a different procedure when negotiating with Fund B. This pertains both to contractual provisions and the set of documents necessary for an in-depth analysis of the project. This will certainly vary depending on the stage in the company’s growth and thus also the round it is raising.
One of the things that entrepreneurs need to keep in the back of their mind when embarking on a VC journey is the cap table, or the company's shareholder structure. Maintaining the proper proportions in this area is one of the most important assets of a start-up. Unlike other parts of the business, a disruption of the balance in the cap table is very difficult to remedy. A sound cap table will keep businesses incentivised and only include entities that can provide long-term support for the company. It is worth remembering that dilution occurs at the average rate of 15–25 percent per funding round. This means that when funding a company at the seed stage, VC funds would want to see at least 70 percent of the company's equity in the hands of the founding team.

In conclusion, transactions involving VC funds impose a set of formal and organisational expectations. It is much easier to go through this process by surrounding yourself with the right people.
Term sheets

A term sheet is a fundamental document necessary to effectuate the investor’s entry into the company. It sets out in detail all the terms on which the transaction is to be conducted, including exit terms. Notably, the document is not drafted by the founders but by the investor – it is the product of a review of the company’s operations to date, its current structure and future prospects. The initial proposal is usually refined during negotiations, and individual provisions can be modified. However, it is critical for all parties to sign the final version of the document.

A term sheet typically contains certain general terms of cooperation, which do not need to be very detailed. A consequence of accepting the provisions of this agreement is entry into the investment agreement, which, unlike the term sheet, requires the engagement of a lawyer specialising in these types of agreements.

At what point are term sheet arrangements typically made? Typically during the due diligence process or immediately after its completion. If the due diligence process is completed, the investor may propose more detailed provisions to be included in the document, supported by an updated valuation. Therefore, the scope of information set out in the document depends, in fact, on the stage of processing, which is related to the investor’s level of knowledge about the company. At this final stage the term sheet may not differ much from the investment agreement itself.

What information is contained in a standard term sheet?

- A description of the parties to the agreement;
- The purpose of the investment and its value;
- Valuation of the company and share distribution;
- Exit terms;
- Terms of cooperation – e.g. the investor’s rights to appoint members of the management board, management methods;
- Remunerations and cost sharing;
- NDAs;
- Schedule and timeline.

It is worth keeping in mind that by merely signing the term sheet the investor is not legally required to carry out the transaction. It is an initial draft for the business relationship, the outcome of which is the investment agreement on the basis of which the investment is to be implemented.
Chapter V
Looking ahead. What’s next?
Looking ahead. What’s next?

What challenges do the funds face?

We have recently observed a degree of capital saturation on the VC market, and consequently, saturation of funding rounds and the associated higher valuations. Therefore, questions arise as to the extent to which the current valuations are justified, especially with respect to exits.

The primary role of funds is to make money and achieve the appropriate rate of return on investment. Therefore, for VC funds, it is a challenge to demonstrate that money can be made in this sector by investing in companies so that they can be sold at a much higher value. Demonstrating a track record of successful exits of this type will be the biggest challenge for Polish VC funds. The sector will not grow if the investors entrusting their resources to the funds get their fingers burned on those investments and fail to make a profit.

We have not yet seen too many spectacular exits on the Polish VC market, but the Allegro and InPost examples (even though they were not backed by VC resources) give us hope that this is possible. However, we are starting to see the first successful exits, which prove to investors that it is worth paying attention to the VC market in the near future. Who is buying those companies is also relevant – these are serious players on the private equity market or strategic investors making prudent investments into companies with a track record of success. We might eventually witness exits like those in Estonia (Skype, Bolt).

These exits make money for the fund but also the founders and their employees, which is also very important because this will encourage them to put the money back in the ecosystem and have the freedom to explore other innovative ideas.
The examples from Estonia and Scandinavia show that new, excellent ideas are often implemented by the same people who previously created a successful start-up, helped investors make money and acquired equity themselves, which gave them the freedom to take on new challenges.

The acceleration of the growth of the Polish VC ecosystem will continue to largely depend on support from public sector capital (PFR, NCBR and BGK). However, it is important for the VC market to be increasingly able to carry out investments using private equity so that private investors are encouraged to diversify and invest their equity in this segment. Successful exits and returns will demonstrate that it is worth entering the venture capital market, where the risk is greater but so are the opportunities. This is a considerable challenge because it is still quite difficult to obtain equity through VC funds in Poland from the private market. This will be much easier to achieve when VC funds build the right track record, not relying solely on public support but precisely on private equity.

If the market continues to grow at the rate seen in the past two years, there will certainly be many more international funds in Poland. Therefore, Polish funds will no longer be competing against one another – we will see international competition that may truly shake up the power structure on the market in the coming years.

There can also be legal challenges – the relatively small amount of private equity is the product of a lack of proper scale and still-inadequate levels of wealth in our society. As they grow, there will also be much more equity on the market. However, this process can be supported even now, for example, through tax incentives that exist on Western markets. In the Polish system, there is no tax assistance for investors investing their funds in these types of entities.

A key factor that could help with the influx of equity and the development of the Polish market are ESOPs, popular in the US, for example, but considerably hampered by the regulatory and legal requirements in Poland. The problem primarily concerns limited liability (sp. z o.o.) companies, where it is extremely challenging to establish ESOP schemes. There are efforts to develop guidelines in this regard at the European level. Therefore, there is a chance that this issue can also be settled in Poland.
Polish legislation is not straightforward when it comes to establishing and running a business like a start-up, which after major rounds, very often causes start-ups to move to other countries, such as the Netherlands, the United Kingdom or the United States, whose legal and regulatory ecosystems are much more favourable to start-ups.

It will also be challenging to build enough of a reputation for Polish VC market brands such that Poland-based start-ups with a global potential will be encouraged to seek funding from Polish entities rather than viewing them as inferior to Western funds. This approach requires fund managers to work hard with the founders at the grassroots level to help them realise that working with a Polish VC fund brings tangible benefits (aside from financial matters) and concrete added value.

In the coming years, EU support for the VC market as part of the European Funds Programme for Modern Economy framework for 2021–2027 will also be extremely important. This programme takes into account not just funding the start-ups themselves but also supporting the development of the entire ecosystem around innovative businesses, including entities such as venture capital funds, corporate venture capital funds and angel investor networks.

Growing competition and foreign fund entries

There will be room for the best
Foreign capital has been flowing into Poland at an increasing rate. In 2020, more than PLN 2.1 billion was distributed to 300 Polish technology companies, which represented an increase of 70 percent year-on-year. Nearly half of the transactions in terms of value (48 percent) were conducted using international funds. Leading the way were funds from the USA, the United Kingdom and the European Union (mainly Germany). However, on their radar were not only companies from Poland but also from the entire Central and Eastern Europe region.

From the point of view of the ecosystem, and especially the founders, the change should be well received. This simply means that the Sequoias and Bessemers of the world appreciate the potential in this region. They see lots of talented individuals who know how to build products that will sell in the USA, Europe or Asia, which is why they participate in those companies’ funding rounds. This is how foreign equity, typically acquired with assistance from top-tier local funds, paves the way for start-ups to enter global markets.
The eastward influx of capital is also related to the growing competitiveness in the west. There is more money than there are promising start-ups in the world. We are investing more and faster, which makes it more difficult to get to top projects. Exciting ventures from all over the world are now even closer to us. The distance was bridged by the pandemic, which demonstrated that remote investing does not need to be an exception, and that it is now becoming the new normal. Thus, for instance, Jokr received support from Tiger Global and Softbank; Spacelift raised capital from Blossom Capital and Hoxton Ventures; and Nomagic had a funding round with Khosla Ventures. We participated in a Preply funding round without ever seeing a founder in person.

The elimination of the borders, growing competition around VC and the attractiveness of the Polish market are the key factors that have permanently changed our start-up landscape, where global players will remain a fixture. From the point of view of local funds, this simply means that the bar has been raised. It is a good thing. There is still room on the market for local funds but only the best ones. Those who want to survive must be able to offer real value to their founders – substantive support and time will be needed alongside money. If a founder sees the value, he/she will balance the cap table to ensure that there is room for local and global funds. The point is to become the fund of choice, not the only option available to the founders. At Inovo, we are well aware of this relationship.

Tomasz Swieboda
Managing Partner
Inovo Venture Partners
Effect of the economic situation

Opening the door for major players
Thanks to the foundations built over the years, the VC sector escaped the pandemic relatively unscathed, retaining the potential for continued growth. However, this does not mean that in the last few quarters the reality in which the funds are operating has not changed, especially in a global context. While we have been hearing for years about the bursting of the bubble created by Silicon Valley investors, the market correction appears to be looming more than ever before. There is simply too much money in the market, which often results in out-of-touch valuations and investor expectations in subsequent rounds or during IPOs. Expecting continued increases, major players are willing to invest disproportionately large amounts in increasingly smaller-scale entities. The activity of large funds, in turn, often results in blurring the lines between PE and VC assets.

These developments are still much less common in Poland, where the share of private resources in VC funds funding start-ups is far lower than of those from the public sector. However, we are looking at interesting months with large rounds on the horizon, especially since the pandemic has resulted in continued increases in the valuations of companies in the area of e-commerce, cybersecurity and fintech, and enabled the growth of companies in the creator economy and education sectors. Moreover, building relationships with global funds and investors in the past year has been difficult, and it is an important factor in ensuring the successful growth of VC funds and companies based in Poland. We have plenty of work to do in this area. A major role in funding start-ups in Poland is still played by funds backed by PFR or NCBR and the increasingly popular corporate venture capital (CVC) funds. Now, the teams of those VCs must demonstrate that their investment decisions are bringing tangible results, giving a boost to the next wave of engagement of the government and corporations. At the same time, there is a financial gap on the market – there is a shortage of large funds ready to take on the mantle from smaller VC funds and get involved in multimillion-dollar rounds that would help maturing start-ups spread their wings on the global market. This is why it is my hope that in 2021 and 2022 we will witness large funding rounds featuring companies based in Poland, raising significant European or US capital.

Wojciech Fedorowieicz
Managing Partner
TDJ Pitango Ventures
How will the funding rounds be structured, given the money supply?

What will the next rounds look like for Polish start-ups?
The Polish start-up and VC fund ecosystem is much younger than those in Western Europe and the USA, which means that the number of businesses in the growth stage is fairly small compared to those in the seed stage.

In the coming years, as the scale of start-ups increases, there will be demand for greater capital and share of the rounds (A-C) with larger funding tickets (less than USD 10 million). This will then encourage foreign investors to become even more active. I expect to see growing numbers of co-funding rounds, where leading VC funds focused on investments in Central and Eastern Europe will be involved alongside VC investors from Western Europe and the USA.

A transaction sourcing and implementation mechanism put to the test in the COVID-19 environment almost entirely online, with no in-person meetings, may further strengthen access to the global investor base.

Rounds involving international capital will be especially interesting for Polish start-ups whose investment premise relies on rescaling a solution for the global market. In the case of technology companies (AI, fintech, medtech, cyber) or gaming companies, borders are often irrelevant – a good software solution or a game may be very well received on many different markets.
In terms of total funding levels, I hope that 2021 will be at least as good as the record-setting year 2020, when Polish start-ups secured a whopping PLN 2.1 billion despite the pandemic. I believe that we will start seeing more of the megaround sequences that occurred in 2020 – when ICEYE, Brainly and Booksy secured over PLN 0.9 billion from investors – because the resources in VC and PE fund portfolios are abundant and Polish start-ups are ranked very high.

In the next two years, I would also expect the emergence of Poland’s first unicorn. We now have a few start-ups with a valuation based on the last rounds of well over PLN 1 billion, so I hope that the next valuation barrier, i.e. USD 1 billion, for at least one of them, will be tackled in no more than 24 months. I would not rule out the possibility of this level of valuation being reached as part of obtaining financing on the stock market (IPO). Low interest rates, immense interest among stock market investors (both institutional and individual) and reverse takeovers (SPAC vehicles, popular in the US) as ways of entering stock markets are already boosting the valuations of desirable technology companies. This makes it a tempting prospect.
What are the upcoming new fund launches?

**Consolidation, professionalisation and gradually catching up with Western markets**

I think we all realise that the VC market in Poland is still in its infancy. In a short period of time, more than 100 managing companies emerged, with different degrees of preparation for investment activity, and geared towards different parts of the economy or technologies. This represents a genuine boom in the VC sector, which would have been impossible without significant engagement of funding from public partners. In total, the private equity engaged by those companies in the life-course of the funds they manage will easily exceed PLN 2 billion. This is a considerable change from the first decade of the 21st century but still a laughable amount in the context of the private equity invested on the VC market in countries such as Sweden or the Netherlands, whose economies are similar in size. Compared to the Netherlands, Poland has 45 times less VC equity per capita, while for Sweden the ratio is approximately 100 times higher than for Poland. Furthermore, according to Dealroom data, the CEE region, which includes Poland, is the fastest-growing regional VC market in Europe, which means that the funding gap is slowly diminishing. The recent success of Vinted and UiPath will help break down the stereotype of Central and Eastern Europe as a region where the only respectable player is Estonia. I expect to see the following three developments in the coming years. The first one is consolidation, which in the case of managing firms, will mean a concentration of the highly dispersed capital in the most effective companies that will establish further funds and contribute to the professionalisation of the VC industry in Poland. The second development I expect to see is a more robust entry into our region of Western European (especially Nordic) and American funds. The last trend I predict to see is a relatively quick rise in start-up valuations – the process is already occurring on markets such as Estonia and Latvia. I also hope to see continued engagement of public funding on the VC market as the convergence of the Polish VC market with international markets will take much more time otherwise. I would like to make one important point here – public or quasi-public entities should, to the extent possible, adopt the outlook and practices of private investors, which means not overwhelming the investment vehicles they established with excessive red tape and constraints.

**Paweł Bochniarz**
Managing Partner
ASI Valuetech Seed
To conclude, Fundacja Startup Poland would like to present a few proposals and recommendations that are relevant from the point of view of the start-up community and the Polish venture capital ecosystem.

Legal regulations should address the needs of innovative businesses and establish a formal framework to ensure the robust growth of start-ups and the venture capital funds that support their funding. This proposal is particularly important now, as the economy strives to recover from the COVID-19 crisis. The applicable laws, practice and legislative stability as well as the formal conditions surrounding the establishment of innovative businesses will have an even greater effect on the decision to invest or not to invest in a given market.

To continue the current upward trend in the investment sector and help accelerate the growth of the Polish VC ecosystem while ensuring that start-ups operating in Poland have access to equity from investors with a large funding potential and a global perspective, it is necessary in particular to:

- enable broad adoption of employee stock option plans in Poland (ESOPs). VC funds describe ESOPs as a “key factor that could help bring capital into the Polish market and grow the market”. They also help start-ups build their competitive advantage among employers and thus acquire and retain top-tier staff. The following criteria should be met in order for ESOPs to develop and thrive in Poland:
  - introduce solutions in limited liability companies (sp. z o.o.) to enable the implementation of ESOP schemes to mirror those in place in joint-stock companies (spółka akcyjna);
– implement tax regulations that encourage offering ESOPs to employees and introduce tax incentives for employers offering ESOPs;

– implement transparent tax solutions clearly defining the tax obligation until cash proceeds from the sale of shares acquired under the ESOP are received (similar to the existing provisions for joint-stock companies);

• introduce incentives for private investors to increase their presence on the Polish market and diversify start-up funding sources, and remove tax barriers that limit venture capital funding;

• support remote investment processes and reduce excessive formalities that make it more difficult for start-ups to procure funding by, among other things, expanding the use of electronic signatures, and thus improving the exchange of documents between businesses;

• reduce the cost of establishing and running companies, and reduce the cost of employing highest-paid specialists;

• keep the public sector open to dialogue with start-ups and VC funds through working meetings with decision-makers, during which representatives of the start-up ecosystem will have an opportunity to present their ideas and areas of interest, as well as wide-ranging consultations of draft legislation concerning the start-up ecosystem with representatives of start-ups and VC funds.

Implementing these proposals would create opportunities for an additional tangible boost for the entire ecosystem. Without reducing bureaucratic barriers, introducing incentives for private investors and assistance for companies operating in Poland, it will be difficult for us to catch up with the leaders in the industry.
Methodology

This report was drafted on the basis of a qualitative study in the form of a focus group interview among representatives of Polish VC funds and public entities supporting this sector.

The cited data comes both from internal sources – previous reports of Fundacja Startup Poland – and external sources, including a report by PFR Ventures and Inovo Venture Partners and a Vestbee report.
Notes
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