



✦NOTWICS TECH UPDATE (HAPPY MONDAY)



NOTWICS COVID DIARIES: EDITION 3

COVID = HOW ARE THE VC'S OPERATING NOW, FOCUS, ISSUING TERM SHEET. THE STATE OF PLAY FROM OUR SURVEY

SFC = EARLY STAGE FUND LOOKING WITH £M'S TO DEPLOY IN THE UK

THE BIG GRUMBLE = BIG ONLINE EVENTS AND WEBINARS - AARRGGGHHHH!

GOOD AFTERNOON,

Here's our monthly perspective on April and the state of play

NOTWICS - BESPOKE VC / INVESTOR SURVEY SUMMARY

COVID IMPACT: ON VC DECISION MAKING / DEAL-FLOW / TERM SHEETS / VERTICALS



WE RECENTLY DISTRIBUTED A SECOND QUESTIONNAIRE OF KEY QUESTIONS TO OUR WONDERFUL, LOYAL ECOSYSTEM OF INVESTORS TO GAIN A SAMPLE OF THEIR THOUGHTS ON THE CURRENT ENVIRONMENT

BY SAMPLING & COLLATING THESE VIEWS SOME OF THE LEADING VC'S & ANGELS IN LONDON, & THE UK, WE AGAIN HOPE TO SHARE SENSE OF WHERE WE ARE NOW FOR ALL

THERE WERE A LOT OF REPLIES ON A NUMBER OF KEY TOPICS, SO WE'LL DIGEST, SUMMARISE AND SEND TO YOU ALL IN THE NEXT FEW WEEKS

PLEASEINGLY ITS NOT ALL DOOM & GLOOM WITH A FAIR AMOUNT OF VC'S AND ANGELS ACTIVE, SEEING THIS CORRECTION AS AN OPPORTUNITY

[FIRSTLY ON TIME ? WE FOCUSED ON ASKING INVESTORS WHERE THEY ARE ALLOCATING THEIR TIME RESOURCE AND FOCUS CURRENTLY:](#)

ON THE DATA:

We gave multiple choice answers to the community here and the data stacked up as follows:

- # 50% of respondents highlighted that they remain open for new deal flow, as well as engaged with their existing portfolio
- # 27% of respondents stated they are allocating their time exactly in the same manner as they did pre COVID. towards both new opportunities and existing investments
- # A very small group of investors stated they were 100% focused on their own portfolio & as an absolute number, this was significantly smaller than in March 2020
- # Interestingly there was also the emergence of a new trend, a small group of VC's who were looking purely at new deal-flow completely.

SO, ALL IN ALL, THE STATS ARE STACKING UP TO SAY THERE IS A GOOD LEVEL OF SUPPORT, FOR NEW OPPORTUNITIES. (NOTE: 90 % OF RESPONDENTS WERE UK VC'S, 10% UK ANGELS)

ON THE TREND:

- # It's clear that the UK investor scene is acting pretty robustly and is being extremely resilient, almost keeping calm and carrying on
- # A small number of VC's admitted that the COVID impact had necessitated more time allocation to their existing portfolio, than they had previously envisaged in March when the real shock first emerged
- # On the whole investors appear to now have a healthy balance between new deal flow and their existing portfolio
- # The majority agreed it was a 50/50 split, but some added they were still spending slightly more time on their portfolio, than they had done, prior to COVID
- # For the optimists, there is still a relatively large, active core group that highlighted its business as usual, they want to start conversations and take advantage of the some of the valuations out there.& also look to do ZOOM based deals

FINAL COMMENTS ON ALLOCATION / TIME SPLIT - from another FUND / Advisor shared their perspectives on the funds / angels they are working with:

"We have heard from VCs/FOs and also some private equity players. There seem to be three main camps: Those who are completely shut, focusing on portfolio or just not looking at stuff until they can meet the business face to face. People completing stuff in process but no new deals. People still looking at new deals

given how long it has lasted/will last".

SECONDLY:

WE DRILLED DOWN & FOCUSED IN ON THOSE FUNDS THAT WERE ACCEPTING NEW DEAL FLOW - DID THEY ENVISAGE ISSUING TERM SHEETS IN THE NEXT 3 MONTHS?

ON THE DATA

- # As mentioned it was very evenly split - 55% of respondents said Yes to issuing a term sheet in the next 3 months
- # 45% said no, many with quite strong opinions that this would be a much harder accolade for founders to achieve, than relative to PRE-COVID times, especially from funds

ON THE TREND

- # Of those names in the market, there clearly was a well defined split between those ready to issue Term Sheets in the next three months and those that aren't
- # It could be argued that this slightly dulls the optimism created by the answer to the first question
- # Also extends a conclusion from our first questionnaire that deal making is potentially going to temporarily be a longer drawn out process in the remainder of 2020
- # The bar to get funding has immediately got higher
- # This also suggests that, in the first actual real quarter after COVID, there is going to be a massive drop down in the absolute volume of deals in Q2 2020 (NOT REALLY A SURPRISE I HEAR YOU THINK)
- # But the harsh realisation is, this could continue into Q3 now - something not really considered before by some of the investors
- # So even with a flight to quality for the very best founders, it could take them a much longer time to get funding in 2020

FACT - THE UK MAY ACTUALLY HAVE FEWER RELEVANT, INVESTABLE COMPANIES, IN EARLY STAGE TECH, IN THE NEXT 6 MONTHS, RELATIVE TO ANY OTHER TIME PERIOD IN THE LAST 5 YEARS.

HERE'S SOME OF THE MANY OPINIONS ..

"We remain open for business, we have cash to invest. But not as much cash as before, we have less time to look for new deals, investment cases are harder to justify, and building relationships up virtually is hard. However if a fast growing highly differentiated business in a large market with a cracking team comes along we'd love to partner with them. We just don't expect to see so many of those businesses right now, and indeed far fewer are approaching us".

"We are actively welcoming new deal flow and if the right deal comes along we could issue a term sheet in the next 3 months. We've been doing virtual office hours and researching new areas and actively seeking to get to know companies".

"On a term sheet in the next three months - 1 month - May - that's a definite no, In 2 months - June a probable no and in 3 months, it really depends on COVID clarity"

"Yes, we've agreed to make investments virtually without meeting the team in person".

"Yes, we continue to actively assess new opportunities. Especially for companies who are performing in the current environment, we think shows the resilience of their models and are keen to support them".

"We're assessing the likely delay to our next fund caused by COVID. So not immediately, but when will be as soon as we have a sense of when we should aim to start deploying".

"Yes and we have seen an increase in pipeline since COVID. We will be issuing terms sheets but were we are comfortable with the business and the sectors they are targeting. A lot of businesses will be impacted by COVID and it is too early to see the impact it will have in a number of sectors at present. Therefore for businesses targeting sectors/ customers impacted by COVID we are likely to want to see how sectors recover before committing to a term sheet

"Yes we are welcoming new deal flow but high bar. Would say less than 50% chance we do issue a term sheet before July"

"Yes, we are looking at new deal flow. We expect to issue a new term sheet in the next week or so".

"We've completed 2 deals in 4 weeks (average 1 per month for us) BUT the rules have slightly changed. Valuations have dropped as the market has changed. Our strategy has been focused by the crisis and we're now discerning/thoughtful on stage and sector. Perhaps also being less forgiving on some details around fundamentals".

"Yes we are still welcoming new deal flow, but with COVID as a lens and having the bar higher given we can't actually meet the founders face-to-face. Still aim to do 1-3 deals in the next three months"

THE LAST CONCLUSION FOR TODAY'S UPDATE =.WHAT IS THE FOCUS FOR YOU BY VERTICAL ? AND HAS THIS CHANGED ?

ON THE DATA & ON THE TREND

80% of respondents said they were going to stick to what they know best and invest in areas they know, have a proven track record and full, deep understanding of

A stick to what we know best type approach

19% of respondents highlighted that this would be a mix going forward, of old and new vertical

Only one fund highlighted that they had completely changed their outlook and focus completely because of COVID

ONE LASTING THOUGHT...

Albeit many said they are having fewer conversations than they normally have, with one VC stating they were only having half of the conversations they'd normally have with good founders, which made them concerned that their will be fewer investable founders out their in 3 - 6 months, in the UK

We sensed this was a new area of concern, not evident in SURVEY 1 = VC's are genuinely worried about the supply lines for deals moving forward and potentially there could be a FOUNDER GAP in the summer, with not enough quality companies out there to invest in, relevant for the future

MORE TO COME AS WE CONDENSE THE VIEWS / ANSWERS TO OTHER QUESTIONS SOON

NEW FUNDING OPPORTUNITIES

EARLY STAGE VC: SFC READY TO DEPLOY IN SEED AND EARLY



IN A MONTH WHERE WE SAW A STRANGE FIRST ATTEMPT TO HELP FROM THE GOVERNMENT, IN THEIR SLIGHTLY FLAWED FUTURE FUND, ESPECIALLY FOR ANGELS AND EARLY STAGE FOUNDERS

IT WAS REFRESHING TO SEE THAT SFC OR START-UP FUNDING CLUB BAG A NEAT £10M FROM THE BRITISH BUSINESS BANK INVESTMENTS, TO ADD TO

UNFORTUNATELY TO SUBSTANTIALLY SUPPORT THE
EARLY STAGE AND ANGEL SCENE - WE NEED A FEW
MORE OF THESE TYPES OF FUND FOCUSED
BUSINESSES

THE PEARLY WHITES:

- # SFC completed investments totalling £5m into 28 companies during Q1 2020, with £1.6m coming from BBI's commitment.
- # BBI's commitment is the second to be made through its Regional Angels Programme, which aims to improve access to funding for businesses in parts of the UK where early-stage capital can be scarce.
- # The £10m managed by SFC will be invested alongside the SFC SEIS & EIS Funds as well as the SFC Angel Network
- # SFC intends to deploy the commitment in over 100 early stage businesses across the UK to deliver almost £30m of new funding for start-up and scale-up businesses across all sectors.

VERTICAL FOCUS ?

- # The announcement comes as SFC uses the commitment to complete investment of £5m into 28 companies across the UK, in sectors ranging from healthcare and life sciences to new materials.

WHO ARE YA ?

- # SFC- were founded in 2012 by Stephen Page
- The SFC SEIS/EIS funds have since become some of the most active in the UK, while the SFC Angel Network has grown from 20 founding members to an award-winning network of over 500 private investors, successful former entrepreneurs and professional angel investors.
- # SFC has funded a portfolio of more than 200 companies with a combined value of over £1bn
- # SFC backed ROCKSTARS include Onfido, Screencloud and Cognism
- # BUSY IN THE REGIONS TO ==> Backed Vortex IOT (Swansea), Transcend Packaging (Caerphilly, Wales), Petalite (Birmingham) and Intupod (Belfast).

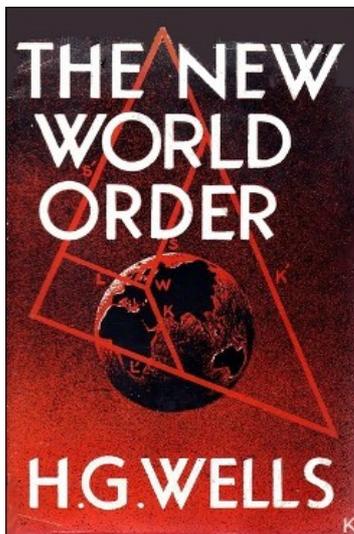
STERLING WORK - GREAT LEADERSHIP HERE. SADLY WE'RE UNABLE TO DO OUR BRISTOL EVENT THIS MAY - FOR THE OBVIOUS REASONS, BUT ARE CONSIDERING A FIELD TRIPS TO WONDERFUL EXETER & AMAZINGSTOKE IN THE 2H 2020. HOPEFULLY NOTWICS CAN SEE SOME SFC BACKED BUSINESS THERE. OR FOUNDERS WHO COULD BE.

JOSEPH. THE CIO COMMENTED

"In these uncertain times, supporting angel investors and early-stage funds is essential to preserve the UK's world-class entrepreneurial ecosystem and we thank BBI for their commitment. In March 2020 alone, SFC has invested over £5m in 28 companies and this £10m commitment will act as a catalyst to our ability to help high-potential companies across all sectors and regions of the UK. We believe that angel investing is currently an attractive asset class as long as you focus on the right sectors and take a long-term and cautious approach. Startups are lean and agile and can adapt quickly to tough conditions and sometimes even benefit from them. We want to make it clear that the SFC is open for business and we look forward to working with entrepreneurs and investors across the country."

TIME FOR CHANGE

TIME FOR CHANGE: EVENTS & WEBINARS



IN THIS NEW SECTION WE'LL BE REGULARLY LOOKING AT SOME OF THE AREA'S WHERE WE PREDICT CHANGE, POTENTIALLY FOR THE GOOD

NATURALLY WITH SUCH AN ABRUPT END TO THE PRIVATE TECH BULL MARKET RUN OF NEARLY 12 YEARS, SOME PEOPLE REALLY ARE TRYING CLING ONTO THE PAST AND ITS EXCESSES

THE FIRST STAND-OUT AREAS THAT ARE FAILING TO ADAPT ARE EVENTS & WEBINARS, WHERE THE OWNERS OF THESE BUSINESSES REALLY NEED TO RE-THINK THEIR APPROACH TO PRICE, THE OFFERING & THE TECHNOLOGY BEING UTILISED TO DELIVER SOMEWHAT UNDER-WHELMING EXPERIENCES

OUR KEY OBSERVATIONS ARE AS FOLLOWS:

WEBINAR HOSTS = PLEASE STOP SPAMMING ME - everyday I wake up to barrage of emails - on "fight COVID", survival guides to fight pandemics from a variety of sources
 ==> Albeit, I know, at the core of all this is goodwill, in these opportunities, often the content is the same, there are no new conclusions, partly due to the key fact, that we've never really been put in this situation ever before !!
 ==> The predictions around pandemics and how to cope do seem bizarre & how many of these new so called **TECHPERTS ON PANDEMICS** were around 100 years ago at the time of the Spanish Flu - to understand the implications ??
 ==> NATURALLY I hit the delete button on 80% of these as they hit the inbox - in fact they should perhaps set up a COVID spam option in OUTLOOK and / or GMAIL
 # We've all had a big shock to the system, but it's clearly now time to take step back, vendors trying to make themselves relevant in the new norm
 # We know you are trying to help - but engage brain then send !!
 # Less, is best, with more high quality as we move towards the end of lockdown in the UK and across Europe

BIG EVENTS ON LINE- just don't translate well onto small, mobile or desktop screens
 ==> The best conferences were built around a location and venue, somewhere different or cool and built upon atmosphere, which is priceless & just cannot be transferred to an online experience
 ==> There are limited opportunities Online for founders to sell their wares or tech in a commercial area
 ==> Surely price points will come down from sponsors here as well - as we all know its a-lot cheaper to do a big event on line
 ==> We all understand that we are witnessing a knee jerk reaction from some big Tech conference organisers
 ==> But think out a better approach would be our advice

world, but oddly is still charging full on "OLD WORLD" prices for an event where the majority of the content is people dialling in remotely
 ===> We predict this one is likely to be moved on line, with events of this scale rumoured to not be possible physically until September.
 ===> More pertinently, on COGX, is the price the organisers were attempting to charge !! Full prices pretty much the same as last year !!
 ===> Bear in mind, 80% of the audience are founders - Price in fact needs to be really re-thought for online big conferences. Its nigh on impossible for people working from home to engage for 10 hours a day with the content being provided online - SO WHY PAY THE SAME PRICE AS THE PREVIOUS PHYSICAL CONFERENCE - LAST YEAR !?!!
 ===> Most attendees attending a conference online will only be interested in a certain amount of the content & I remember I could only usually stomach an morning or afternoon at most, due to time commitments and actual interest levels
 ===> Online also means a limited opportunity to network - which was a primary reason for founders and funds to attend and pay
 So, price needs to be really examined in detail - as budgets get cut all over the ecosystem, and actually the cost of putting on such an event diminishes by moving to virtual. Should the overall price charged be dropped all together (& the organiser just relies on sponsorship) or even a pay per view option introduced - for certain segments of the conference (at much lower price points: £2-£10 an hour or session ?)

INEQUALITY - only the wealthier funds and founders can afford to attend and pay for online access. This smacks at social good and citizenship ?

===> Should the majority of the major headline content be provided for free - if broadcast online - especially the big speeches from thought leaders shared for the benefit of all
 ===> Equality in the TECH ecosystem is apparently going to be huge as we look ahead - to share, care and be better people
 LESS CREED & GREED FOLKS

THE BIG SHOTS - it does appear, that a number of the leading Techlebrities, that have dined out in the old conference circuit are seeing an abrupt end to their careers

===> There are so many people COVID has exposed as being empty vacuums of noise and greed, who also HAVE ORGANISATIONS that add very little value to the TECH COMMUNITY
 ===> These individuals are now trying to re--invent themselves at break-neck speed
 ===> SEVERAL of these people's organisations are now constantly peppering Email inboxes - with attempts to make themselves relevant on COVID, the government's policy (or lack of policy) or anything they can piggy back onto, to effectively save themselves from drowning !!
 ===> Sadly some of these snowflakes will re-invent themselves and make new profiteering schemes, but I think in the leaner world we look towards there will be fewer Big Conferences, Accelerators, Incubators, Weird EGO events with people talking a-lot about themselves. Only the best will survive, this period of consolidation
 ===> With this demise, change offers the opportunity for new, deep thinking individuals, founders, investors to come to the fore evolve into these new publicly open forums, where change for the better is abundant

INFRASTRUCTURE - this is the big opportunity in this "TIME TO CHANGE" as the current modes of Virtual Technology really are pants.

===> The main online platforms struggle with bandwidth and quality of picture and broadcast, especially at scale
 ===> The sound is often poor, whole experience glitchy and prone to technical dilemmas, of which all of them are creaking
 ===> Webinars have reported a lot of cyber-security issues, in only 6 weeks, that this is the new normal
 ===> Therein lies the opportunity for the TECH community to really pull together and build a better visual solution for all - perhaps incorporating AR / VR at a lower price point to provide the lifelike visual experience we all crave
 ===> Its almost like we are in the 1st generation of mass, virtual interconnectivity and hopefully in 10 years we'll look back and laugh, like I do when I think of the first Sony Triniton TV my parents bought in the 70's. comparing that first the visual experience that provided and what TV's offer now

ONCE THIS IS BETTER - THEN PEOPLE SHOULD AND WILL PAY MORE. SO WEBINARS / CONFERENCES SMALL, NICHE & TARGETED. OR JUST PRESERVE YOUR BRAND UNTIL WE CAN RETURN TO PHYSICAL EVENTS, OR A MIX OF PHYSICAL EVENTS, WITH A

I ALSO HATE ON-LINE ZOOM QUIZZES, BUT DON'T GET ME STARTED HERE. TILL THE NEXT TIME !!



CHRIS,
NOTWICS LTD

www.notwics.com

+44 7800 927865



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Our mailing address is:

iamchristopherjlowe@outlook.com or chris@notwics.com

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