

Short UK version

From startup to scaleup

Status on the capital market for Danish entrepreneurs and growth
companies, 2022H1

VEKSTFONDEN

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Preface

Welcome to the fifth edition of "From startup to scaleup - a status report on the capital market for Danish entrepreneurs and growth companies". In this report, we dive into the trends and financing offers characterizing the financial ecosystem in Denmark over the past year and a half (2021 and the first half of 2022).

During the past years, the Danish ecosystem have undergone a significant development. The ecosystem have become increasingly robust from early stages to exits. The degree to which the Danish ecosystem have connected with the outside world is particularly noteworthy. Denmark and our companies have indeed been put on the map underlined by a record-breaking number of international investors making investments in Danish companies in 2021.

However, raising capital have become increasingly challenging. The COVID-19-pandemic, the Russian invasion of Ukraine and the related increase in energy and commodity prices as well as global supply-chain issues have surged inflation affecting consumers, companies and central banks. The international financial markets have reacted with a decrease in stocks, reflecting lowered expectations to the economic development as well as generally reduced risk-taking behaviour.

The long-term effects and consequences are unknown for the time being, however, the decrease in investment activity outlines a pre-recession, being early warnings of a new

reality for entrepreneurs, companies and investors. Therefore, the market must prepare for valuations coming under pressure, funding rounds taking longer time, and that the market will more thoroughly stress test business models leading to some businesses not obtaining financing.

Vækstfonden supports Danish entrepreneurs and growth companies, both during times of adversity and growth. We are in place to contribute to growth and development in small and medium sized Danish companies by providing capital and competencies.

We hope this report can give you insights into the state of the financial ecosystem for Danish entrepreneurs and growth companies.

Happy reading!

Partners



Ark Kapital offers long-term loan financing for scale-up companies. The loans from Ark supplement and provide an alternative to equity funding, enabling the founders to remain in control.



Coop Crowdfunding is Denmark's leading crowdfunding platform for food producers. The aim is to bring producers and consumers closer together to improve on sustainable foods and products in unison.



DanBAN is the largest and most active network for business angels in Denmark. It consists of approx. 300 private investors, investing in growth companies. The network combines companies seeking capital, partners and private actors sharing an interest in scaling ambitious companies.



The Foundation of Entrepreneurship is the central national knowledge center and the fulcrum of developing and expanding entrepreneurship in teaching across all levels of education.



The Association of Listed Danish Growth Companies is an interest organization for growth companies either already being publicly listed or working towards an IPO. The primary goal is to strengthen the Danish capital market for publicly traded growth companies.



Headline is a global Venture Capital firm spanning seven cities around the world. Investments are made locally at every stage, with a focus on identifying and investing in local trends.



Innovation Fund Denmark is aimed at creating growth and value and to solve societal challenges. This is carried out by investing in research- and innovation projects across Denmark. They dare to support projects that others may not see the opportunities in.



Keystones is Denmark's biggest network of startup investors. The network consists of private investors, business angels, family offices, corporate ventures and accelerators. The purpose of the network is to infuse Danish start-ups with both people and capital.

2021-2022H1 Status



Early Stage

- More than EUR 40 million in public grants in i 2021
- Record-breaking activity amongst Danish Business Angels in 2021, the activity is expected to fall slightly in 2022



Venture

- Danish companies raised almost EUR 2 billion in 2021, but the activity has slowed down in 2022H1.
- Consistently a high number of funding rounds of more than EUR 13 million, and high activity amongst international investors in 2022H1



Buyout

- Extraordinary investment activity in 2021 with 52 investments in Danish companies, 2022H1 have slowed down with 12 investments
- Overweight of international investors on the Danish market in 2021, with an almost 50/50 split in 2022H1.



Loan Financing

- Continuous high interest for Vaekstfondens loan products after the phasing out of the relief packages from the Danish government.
- Danish financial institutions have increased their loan balance to business in 2022H1, and at the same time tightened the credit standards for SMEs



IPOs

- With 25 public listings on Nasdaq and Spotlight the activity was record-breaking in 2021
- The high activity in 2021 was replaced by a near complete stop of activity in 2022H1 with just a single IPO

Early Stage Financing Options

For lots of entrepreneurs the financial journey starts with public grants or private grant schemes. Grant schemes may prove to be the catalyst enabling companies to craft “proof of concept” or even “proof of business”. In addition to grant schemes the early stage of a company is impacted by investments from private investors such as business angels, and the general public in the shape of crowdfunding platforms. Furthermore, a series of pre-seed funds are active investors in the very early stages of a company.

2020 was a special year impacted by COVID-19, but despite challenges from the pandemic the Innovation fund [Innovationsfonden] managed to maintain their activities at the usual level. In 2021 the fund canalized more than EUR 40 million to entrepreneurs through their Innobooster and Innofounder programs. A large portion of entrepreneurs have raised capital through crowdfunding in 2021, meanwhile the activity of business angels have been at an unusually high level. Entrepreneurs have thus been able to raise capital in the early stage despite a year of tumult and moments of uncertainty.



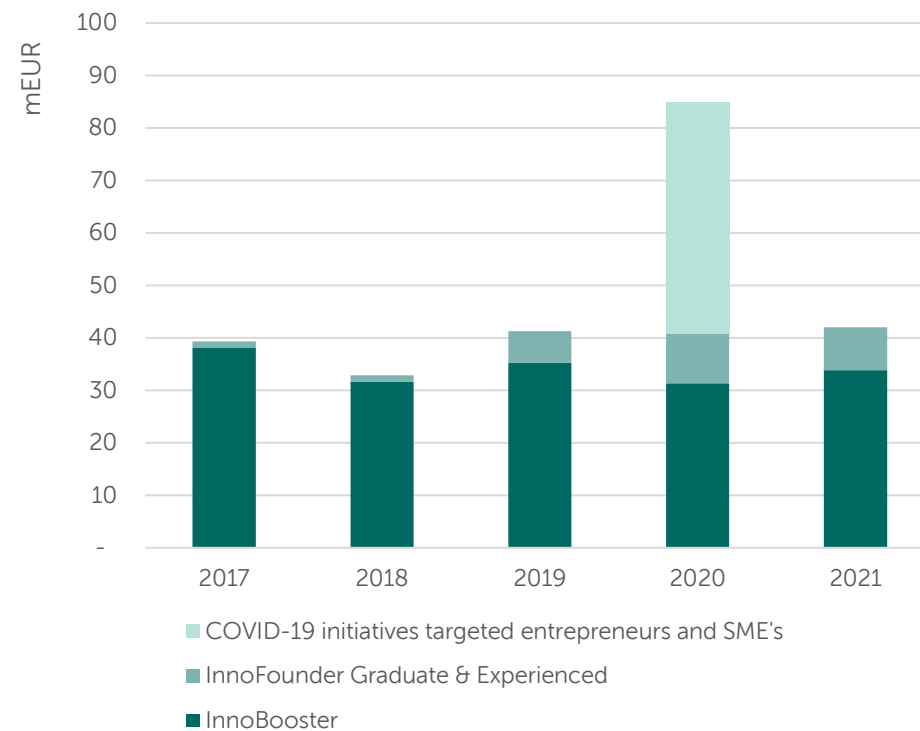
Grant Schemes

Innovation Fund Denmark

During COVID-19 the Innovation Fund Denmark played a significant role in supporting startups and SME's. In 2020 extraordinary initiatives was allocated to further support their target group, doubling their usual grant allocations to EUR 80 million, with more than EUR 40 million canalized out by special initiatives through the Innobooster scheme.

The extraordinary COVID-19-initiatives was phased out in 2021, normalizing the allocation of grant schemes of Innobooster and Innofounder (Graduate and Experienced) of just above EUR 40 million.

Grants from Innovation Fund Denmark



Source: Innovation Fund Denmark

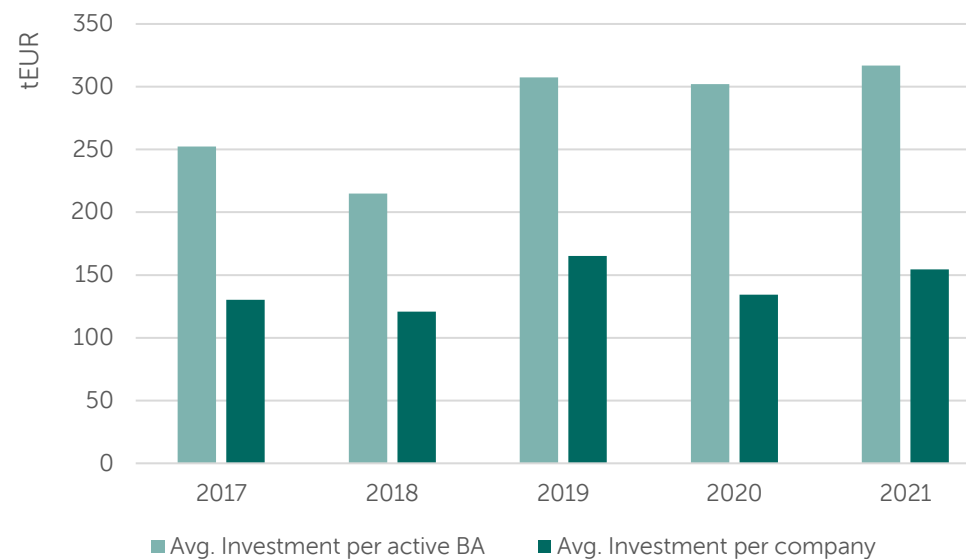
Business Angels

The Appetite to Invest Continues Amongst Danish Business Angels in 2021

Members of Danish Business Angels (DanBAN) invested for a total amount of EUR 54 million, spread out on 352 companies, signifying that roughly one new investment of approx. EUR 0,15 million was made daily by a DanBAN-member throughout all of 2021.

On top of the many investments made by DanBAN's members, the Danish Growth Fund (Vækstfonden) have matched the investments with a total of EUR 20 million in loan products. Accordingly, Danish entrepreneurs have received investments of more than EUR 74 million in working capital through DanBAN's members. The average active business angel invested in 2,1 companies for roughly EUR 0,15 million per company.

Business Angel Investments



Source: DanBAN member survey 2021

Note: The survey covers DanBAN's 258 members

Venture Capital

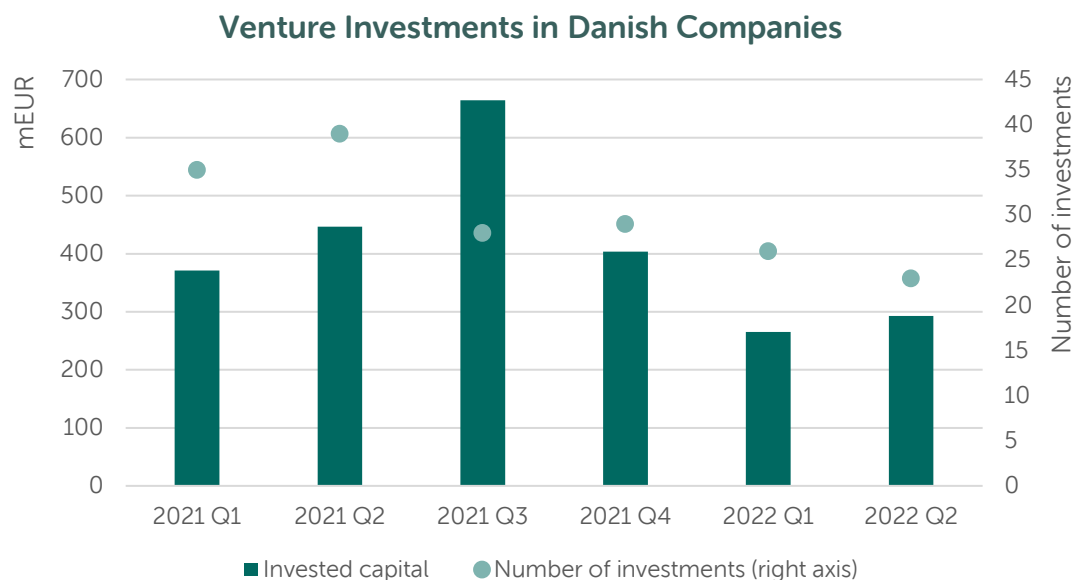
Venture capital is particularly suited for companies with a large potential for growth, defined by a scalable business model. Companies eligible for venture capital are typically through the earliest stages and have begun to generate revenue in a market of significant potential.

In the aftermath of the COVID-19 pandemic, the market found a significant momentum in 2021. Consequently, Danish companies raised just shy of EUR 2 billion, which is approximately 3,5 times the capital raised in 2020. The number of investments more than doubled, and throughout 2021 venture capital funds made approx. 130 investments in Danish companies. As such, 2021 was an extraordinary year, breaking all records related to venture capital activity - both in Denmark and internationally.

The activity have halted throughout the first half of 2022 when comparing to 2021. However, the capital raised constitutes more than EUR 0,5 billion, surpassing the amount invested over the entire year of 2020. International participation in funding rounds continues undeterred with 65 percent of the rounds consisting of international investors. The share of funding rounds of more than EUR 13 million keeps pace with 2021. Thus, roughly one in four of the funding rounds was of EUR +13 million in the first half of 2022.



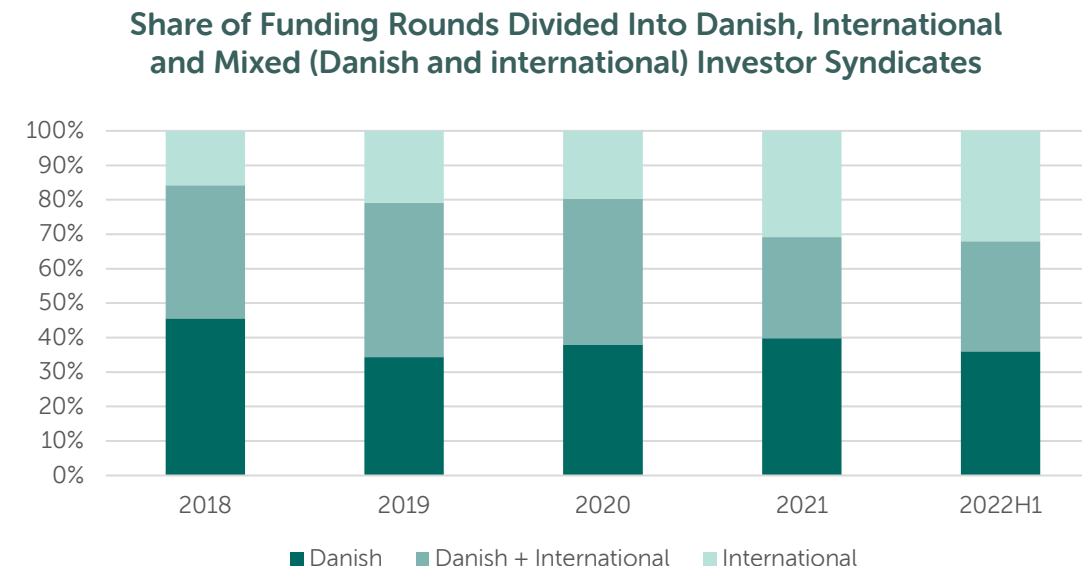
Venture Investments in Danish Companies



Source: Vaekstfonden

Record-breaking Activity in 2021 Halted in the First Half of 2022

The investment activity continued to increase over the span of 2021 and peaked in the third quarter in which almost EUR 0,8 billion was raised by Danish companies. In the first half of 2022 the activity have slowed down, totaling shy of EUR 0,6 billion. Despite a decrease in activity, the level still exceeds that of the entire year of 2020.



Source: Vaekstfonden

The Interest from International Investors Continues in 2022H1

The share of investments conducted by exclusively Danish investor syndicates have been stable the past years. However, the share of investments conducted by exclusively international investor syndicates have increased the past year and a half. Thus, approximately 30 percent of all investments made in 2021 and the first half of 2022 was made by exclusively international investor syndicates. This development have occurred at the cost of a reduction in the share of investments conducted by a mix of Danish and international investors.

Venture Capital

- Comment from the Market

What are your perspectives on the venture market in 2021 and first half of 2022?

Looking back at the first half of 2022, we observed a significant change in sentiment that started in the public markets and quickly affected later-stage funding rounds of VC-backed growth companies. Geo-political uncertainty and persistently rising inflation fuelled by extraordinary fiscal and monetary stimulus scared investors. Central banks countered with interest rate hikes leading to an increased cost of capital and sharp discounting of growth.

Crossover funds first halted new investments resulting in later stage funding rounds taking longer to complete and re-pricing. With a time lag, this also started to affect earlier stage rounds from Series A upwards. The market for Seed investments continues to stay very competitive with resilient valuations. While 2021 activity of US-based funds exploded in Europe, we observed a sharp pullback of activity at the earlier stages, with a flight back to focussing on home markets in 2022.

We guide our portfolio company CEOs to review their budget to optimize cash runway, revaluating common trade-offs between growth and profitability and scenario planning for various macro environments that may negatively impact their business.

Our business is cyclical at its core. We have experienced several such cycles over the more than 25 years that we have been investing as a team. While we anticipate that several difficult decisions will need to be made in the coming quarters, as a firm, we benefit from a stable platform that will allow us to continue making investments at a steady pace.

Throughout the upmarket, we have consistently stated that we will never attempt to time the market but invest in outstanding entrepreneurs at the then-current market price. We believe this will continue to be the right approach for the long term, resulting in effective diversification across our funds' vintages.

Jonathan Becker

Partner, Headline

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Venture Capital

- Comment from the Market

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As a foreign investor - what makes the Danish ecosystem attractive?

While the Headline Europe team is predominately based in Germany, we made a significant amount of investments in Denmark, including companies like Podimo, Leapwork, Monta, Growblocks, ViaBill, and Layerise. While the number of companies is smaller, the general quality of entrepreneurs and products tends to be very high.

We are observing a rapidly growing ecosystem of role-model cases like Zendesk, Unity, Peakon, and Pleo and a growing number of successful entrepreneurs starting to be active as angel investors attracting higher quality founding teams with growing ambitions. Further, due to the small size of the Danish market, the mindset is to expand globally from the beginning, making the market very attractive for Headlines global platform model.

Looking ahead – where do you see the market heading the coming twelve months?

The past ten years have been unprecedented for technology companies and VCs. We expect that the environment will stay challenging with a growing number of companies being unable to raise further capital. While this process will be painful for everyone involved, we also see opportunities for start-ups to hire senior talent from growth companies and an increasing number of new companies being started due to sudden drops in the value of stock options. Most of Headlines' best investments were made after severe market downturns.

Jonathan Becker

Partner, Headline

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Buyout Capital

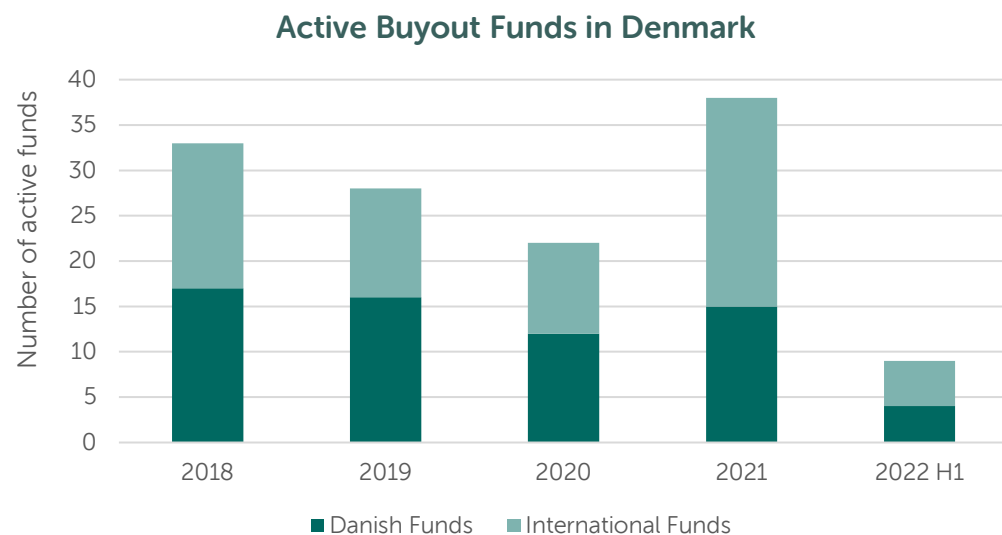
Buyout funds typically invest in midrange and larger unlisted companies with the purpose of developing and ultimately selling them to new owners. The investors in buyout funds are usually institutional investors e.g., pension funds. Buyout funds are an important part of the Danish ecosystem for entrepreneurs and SMEs, since buyout is a potential exit-opportunity for venture funds. In addition, the buyout funds can contribute to stabilizing successful growth-businesses.

After a relatively moderate level of activity in the buyout market in 2020, the activity grew in 2021 in which 52 buyout investments was made in Danish companies. The high activity is also reflected in the high number of active investors in the Danish market, in which the international investors was particularly active. While the activity was extraordinary in 2021, 2022 shows a more moderate pace of activity. In the first half of 2022, 12 buyout investments have been undertaken in Danish companies, which is significantly lower than the 28 investments that were made during the same period in 2021.

The Danish market buyout market is still dominated by smaller sized transactions. Around half of the buyout transactions were below EUR 15 million in 2021. In addition, the primary share of the transactions consists of companies within industry, trade and transport.



Buyout Funds

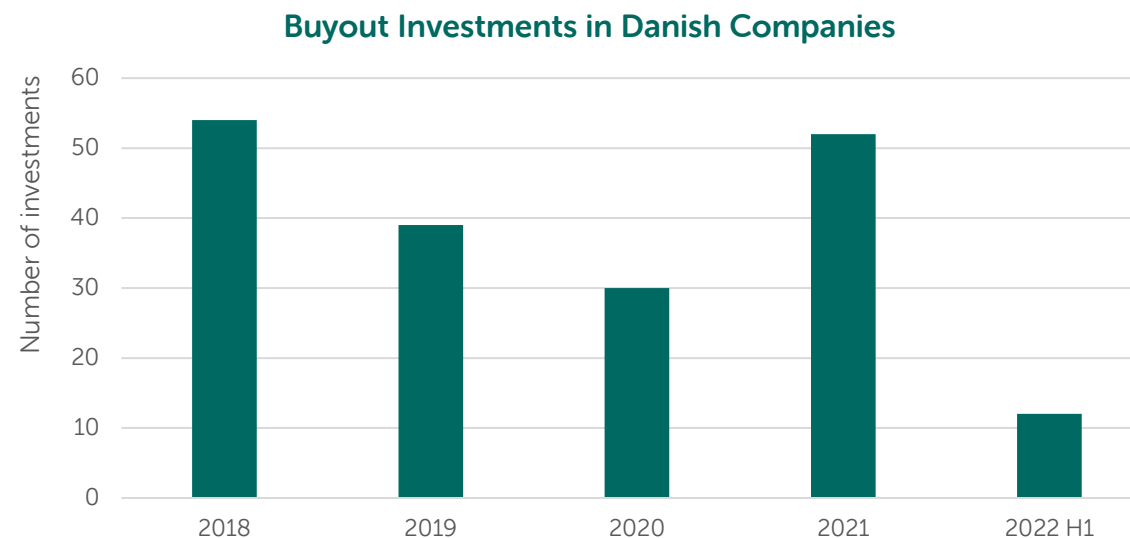


Source: Active Owners

Note: The figure portrays the number of managers behind buyout funds that has made at least one investment in a Danish company the given year.

Lots of Active Buyout Managers on the Danish Market in 2021

After a trend of yearly decrease in active buyout managers in Denmark, it turned completely in 2021. The high activity in 2021 meant that just short of 40 managers undertook a minimum of one investment in a Danish company, of which specifically international buyout managers were very active on the Danish market. In the first half of 2022, a significant decrease in the number of active buyout managers on the Danish market is evident, corresponding with the general slowdown in growth, nationally and internationally.



Source: Active Owners

High Transactional Activity in 2021 Followed by a Slowdown in 2022

After several years of decreasing activity 52 buyout investments was undertaken in Danish companies in 2021. The extraordinary activity in 2021 have later slowed down significantly. The halt in activity are correlated with the economic and geo-political uncertainty impacting the world in 2022.

Loan Financing

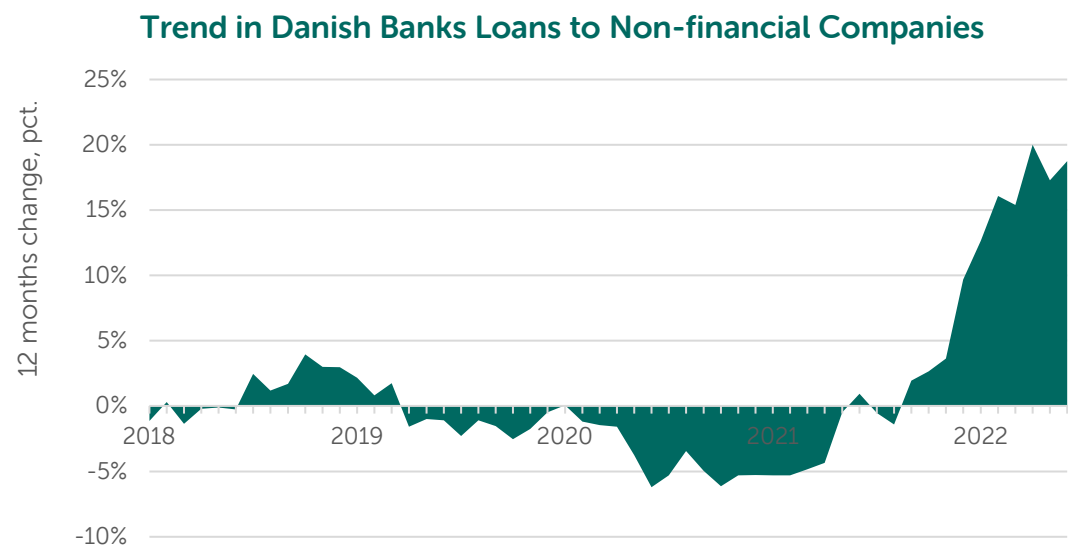
A well-functioning loan market supports and promotes growth and development for Danish companies. Most Danish companies use loan financing when they need to finance new projects, machinery or equipment. Loan financing can moreover supplement equity investments for entrepreneurs and small businesses. In many cases, the optimal financing is composed of both equity and loan financing.

Following the COVID-19 outbreak and the comprehensive lockdown of society, the loan market has become an even more important tool in relation to providing the necessary liquidity for Danish companies. Vaekstfonden, together with other financial institutions, has been involved in mediating several relief packages to companies affected by the crisis. One of the products is the COVID-19 guarantee for SMEs, where financial institutions and Vaekstfonden, have provided guarantees for companies whose revenue have dropped significantly due to the crisis. This opportunity have been utilized and over the period of 2020 and 2021 COVID-19-guarantees worth EUR 563 million have been granted. Through the first half of 2022 the demand for the products offered by Vaekstfonden continues to be high. Hence, in 2022H1 loan products worth EUR 120 million and guarantees worth EUR 107 million have been given life in approx. 700 Danish SMEs.

The Danish banks significantly increased their lending stock to non-financial companies from ultimo 2021 to June 2022. Meanwhile the financial institutes have tightened their credit standard towards SMEs in the first half of 2022.



Status on the Loan Market

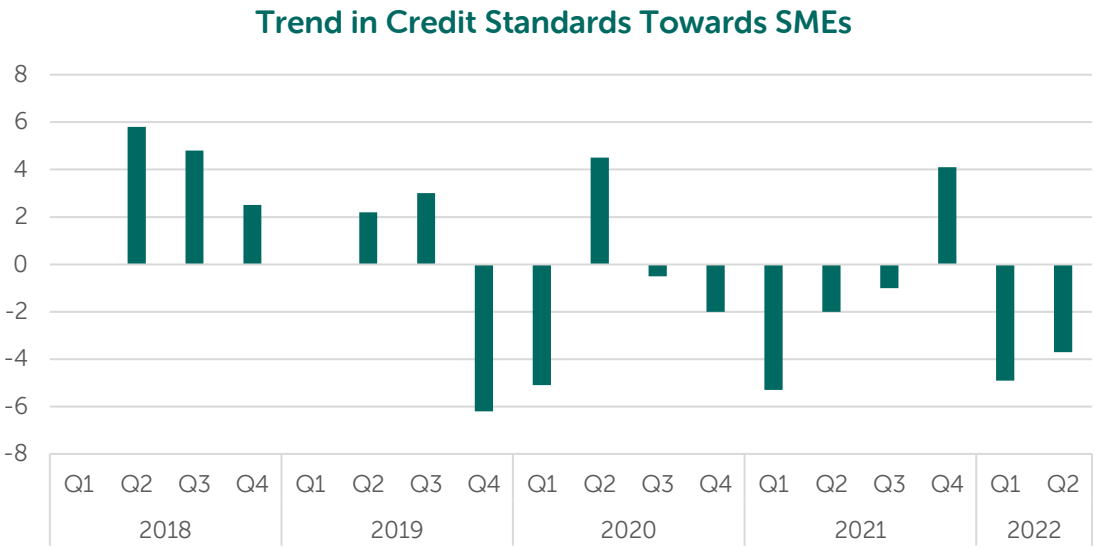


Source: National bank of Denmark

Note: Calculated as year-to-year difference in the total lending stock. The numbers cover the national loans from financial institutes to non-financial companies and privately owned companies.

Increase in Bank Lending to Businesses in First Half of 2022

Towards the end of 2021 and through the first half of 2022 the financial institutes have increased their lending stock to non-financial- and privately owned companies. The development is pushed by the largest corporates requiring working capital, because of uncertainty in supply chains.



Source: National bank of Denmark

Note: Every quarter, the banks' heads of credit respond to a questionnaire about changes in their credit policy. The questions have five answer categories with the values -100, -50, 0, 50, 100. The answers are weighted to provide a net number that considers the respondents' share of the total loan volume. A positive number indicates that the credit policy has been relaxed, while a negative number indicates that it has been tightened.

The Credit Standards Have Been Tightened Towards SMEs in 2022

The financial institutes have tightened the credit standards towards SMEs over the past two years, though except for the fourth quarter of 2021. All else being equal, the tightening in credit standards will result in a decrease the financial opportunities of SMEs at the financial institutes.

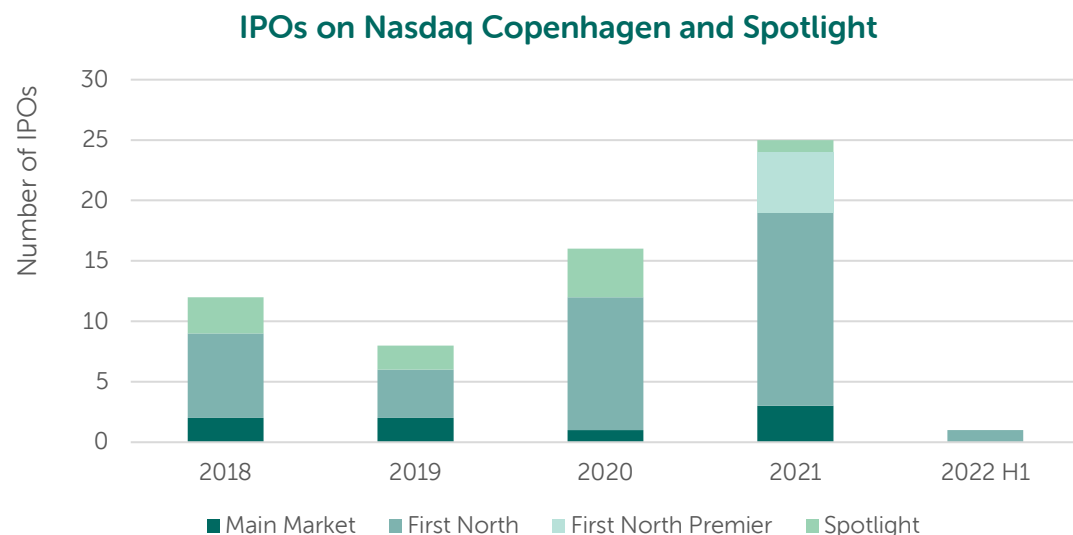
IPOs

First and foremost an IPO is a great tool for raising capital for a company's further growth journey, but at the same it can also function as an exit route for venture and buyout funds. The Nasdaq stock exchange in Copenhagen hosts both the mature and established companies traded on the Main Market (Large, Mid- and Small Cap), but also the smaller and often younger growth companies traded on First North. The companies on the Main Market are generally stable in both operation and growth potential, while the companies on First North carry greater risk, but also greater opportunity for a potentially large return since these companies often are in the earlier stages. Furthermore, the Spotlight stock instantiates an alternative to First North with the listings also characterized by being relatively early-stage growth companies.

Nasdaq Copenhagen and Spotlight listed 25 Danish companies in 2021. The activity was particularly high on First North and First North Premier, collectively listing 21 companies. These growth companies succeeded in raising EUR 161 million through public listings. This unprecedented activity was replaced by a near complete halt in the first half of 2022, in which just a single company was listed. The development is not singled to the Danish market and reflects a general uncertainty in the market because of rising inflation and interest rates as well as geopolitical uncertainty caused by the Russian invasion of Ukraine.



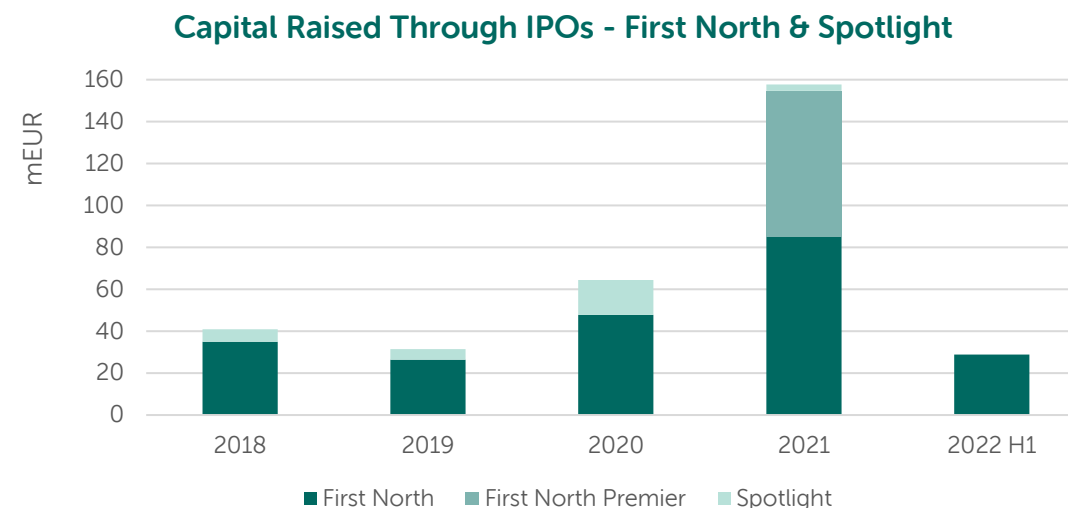
Status on Danish IPOs



Source: The Association of Listed Danish Growth Companies

High IPO Activity in 2021 Replaced by an Almost Complete Stop in 2022

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Source: The Association of Listed Danish Growth Companies

Danish Growth Companies Raised EUR 161 million Through IPOs in 2021

The high activity in public listings in 2021 is reflected in the total amount of capital raised through public listings. In total Danish growth companies raised EUR 161 million on First North and Spotlight. For the first time in years First North Premier became active with five listings, further instantiating 2021 as an extraordinary year. During the first half of 2022 a single company have entered First North and raised just short of EUR 27 million.

VÆKSTFONDEN

Vækstfonden is the Danish state's financing fund.

In close collaboration with banks and domestic and international private investors, we discover and develop the companies that Denmark cannot afford to miss out on.

We carry the experience and the expertise that make businesses grow – from digitalizing a carpenter's business in small town Sallingsund to the launching of a robotic arm in Silicon Valley. The power of innovation, yield to society, and responsibility, are the three signposts that guide us in finding and choosing new companies. We will not forget, however, that the companies we find and nurture, must put things in motion, and people to work. In Denmark.

www.vf.dk

TECHBBQ

TECHBBQ is among Scandinavia's biggest conferences on entrepreneurship and technology, attracting more than 8,000 participants over two days in the heart of Copenhagen. Since 2013, TECHBBQ has functioned as a meeting point for Danish, Nordic and international entrepreneurs, investors and key actors in tech and entrepreneurship. The purpose of TECHBBQ is to support and strengthen the Danish ecosystem for entrepreneurship and innovation. We create local and global networks and growth for startups and scaleups, on the basis of the special Nordic values of openness, trust and treating people as equals.

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