ESTONIA STARTUP ECOSYSTEM REPORT

from The Startup Ecosystem Report Series
by Compass.co (formerly Startup Genome)
with the support of CrunchBase

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ABOUT COMPASS.CO
(FORMERLY STARTUP GENOME)

We came together for one reason:

To radically improve the success rate of businesses.

With 34,000 signups, Compass is the leading solution for automated management reports and benchmarks for e-commerce and tech businesses.

Compass is made for executives who seek insight on how to improve their ROI without having to rely on analysts or consultants. Compass automatically prepares best-practice reports and benchmarks for your weekly and monthly business meetings.

You get your first interactive report in less than two minutes after signing up. Simply connect the tools you use to manage your business and Compass will create your tailored report.

Why we built Compass:

In our research as part of the Startup Genome Project on the success and failure of young firms, we found that most businesses fail not because of competition, but rather due to self-destruction. In other words, they fail because they execute on the wrong things.

In our search for scalable solutions to this problem we learned that peer benchmarks and industry data is one of the most effective ways to help businesses focus on executing what matters most.
Estonia Startup Ecosystem

While small, the Estonia startup ecosystem is growing very rapidly, building on the several success stories it has produced. Skype, the world’s largest P2P communications platform, is often considered the trigger of Estonia’s emerging startup ecosystem. Skype’s acquisition by eBay for $2.6 billion in 2005 put the Baltic state on the global map of innovation and fueled it with financial resources and startup experience. The FinTech startup TransferWise, among others, re-confirmed that Estonian startups can be globally competitive with a $58 million Series C round in January 2015 led by renowned Silicon Valley firm Andreessen Horowitz.

Whether directly or indirectly, the government has been supporting the ecosystem and has helped it gain momentum. Initiatives such as e-government, the digitization of public agency processes, and e-Residency, offering foreigners a government-issued digital identity and the opportunity to run a trusted company online, have been well-received by the startup community. Accordingly an impressive 66% of Estonian startup founders expressed satisfaction with regards to the national government whereas the global average lies at only 25%.

The private sector has been very active as well. The establishment of many accelerator programs and co-working spaces, as well as the development of a growing investor community, have been crucial in fueling the ecosystem with know-how and capital. The contribution of Skype alumni is notable, with several early employees becoming angel investors and the co-founders starting an active venture investment group.

The Estonian Business Angels Network now counts more than 100 members. While this has meant improved funding for startups, the average investment amount for seed rounds is, at $0.45 million, still significantly below the European average of $0.62 million.

Beyond Series Seed only one local alternative exist: SmartCap. The investment arm of the Estonian Development Fund invests up to €3 million in startups with high growth potential on equal conditions with a private co-investor. Until today, the fund invested in 22 startups. This underlines the limited local funding activities, with many startups choosing to raise money in other ecosystems such as London and Silicon Valley. For this reason Estonian startups receive on average $4.75 to 5 million for Series A, only slightly less than the European average ($5-5.0 million).

In addition to VC financing, Estonian startups have to focus outside the country for two other key elements. First for customers—in comparison to many other ecosystems around the world, its local market of just over 1 million people forces startups to think global from the onset. As was explained in Compass’ Startup Ecosystem Report on Waterloo, Canada1, this can play to an ecosystem’s advantage. Estonia’s early-stage startups have an average 60% of foreign customers, which is 4% higher than the European average. However, considering its local economy is even smaller than Israel’s, a percentage equal to or above Tel Aviv’s (74%) would correspond to a healthier level of global focus.

Secondly, Estonian startups have to look outside their country to find talent. Estonia has produced some great entrepreneurs and top talent but across skillsets stakeholders agree that the quantity is insufficient to meet the growing need. In order to close that gap with a small population, immigration must be part of the solution. With only 24% of foreign employees versus 53% for London, much can still be done. Having achieved a high immigration success rate and short visa response time, efforts have turned to attracting high-quality technical talent, especially from Russia and former Soviet Bloc countries where large pools of top quality talent are looking for exciting startups to join. The last two years have seen an increased influx of such talent. However, Andrei Korobeinik, entrepreneur and Board Member of the Estonian Business Angels Network, explains, “There is a lot to do to ensure that our ecosystem continues to grow sustainably. Latvia and Lithuania have much better immigration policies in place, which is going to hurt Estonia’s competitiveness if we fail to take immediate actions.”

The Estonia ecosystem is growing very rapidly, building on several success stories

Given the ecosystem’s small size and the considerable amount of startup success stories, it is not surprising that Estonian startups have slightly more employees with prior startup experience (41%) than the European average (39%). This is also reflected in the percentage of founders with hypergrowth experience where Estonia scores 2% higher than the European average (15% versus 13%), but much lower than London (23%). Yet, experts consider the depth of experience to be relatively shallow. The

1 On average, Compass data has shown that non-U.S. based startups that focus on acquiring international customers scale faster than startups that focus on their home market. For more information see the Waterloo Startup Ecosystem Report at http://startup-ecosystem.compass.co/ser2015/Waterloo
Selected Findings

The Estonia startup ecosystem is growing much faster than top ecosystems, with a Growth Index of 10, matching Berlin, due to a rapid growth in VC investments (133%), and exit value, from a very low base.

Important Funding gap, with lower average amounts, limited number of Series A investors, and lack of later stage investors.

Limited local talent pool across skillsets, which has been compensated by efficient immigration policies. However, attracting talent in numbers and quality that meet demand has been challenging.

The national government has developed proactive and even world-leading initiatives such as digital identity.

Startup Experience levels are competitive, an impressive feat for such a small ecosystem. Employees with prior experience in a startup and founders with hypergrowth experience are both above European average.

Number of advisors with equity for example currently lies at only 0.76, versus 1.05 for the European average.

In conclusion, while Estonia has some of the special ingredients that make an ecosystem successful, more work needs to be done to close its Funding and Talent gaps so that high potential startups can grow without moving to the U.S. and London.

“Estonia has proven that size isn’t everything—it’s what you do with it to be successful. Whilst the community is not large, its critical density is significant. What experience the founders have is very strong, from which they have done amazing things. The quality of English in the community is amazing—and their balls to the wall approach—is a key element of their success.”

– Jon Bradford, Co-Founder of F6S and Tech.eu, previously Techstars

“If I see a company coming out of Estonia I am reasonably assured that it will be executed well. For its size, Estonia is generating more high quality startups than you would expect.”

– Naval Ravikant, Founder of AngelList

**Performance & Growth**

- **Ecosystem value**
  - Europe Avg: $1.2bn – $1.45bn
  - Silicon Valley: $264bn – $323bn

- **Startup output**
  - Europe Avg: 14k – 19k
  - Silicon Valley: 2.4k – 4k

- **Growth Index**
  - Silicon Valley: 21
  - Europe Avg: 3.7

**Demographics**

- **Female founders**
  - Europe Avg: 16%
  - Silicon Valley: 17%

- **Founder age**
  - Europe Avg: 34.5
  - Silicon Valley: 36.2

- **Founder with work experience in hypergrowth startup**
  - Europe Avg: 13%
  - Silicon Valley: 13%

- **Startups with at least 1 tech founder**
  - Europe Avg: 89%
  - Silicon Valley: 85%

- **Startup density**
  - Europe Avg: 0.6
  - Silicon Valley: 0.4 – 0.55

**Funding**

- **Average seed round**
  - Europe Avg: $400k – $450k
  - Silicon Valley: $900k – $950k

- **Average Series A round**
  - Europe Avg: $4.5M – $5M
  - Silicon Valley: $6.5M – $7M

- **Dilution**
  - Europe Avg: 19%
  - Silicon Valley: 15%

**Notes**

1. Delta to Silicon Valley, Delta to Regional Average
2. Estimated value of all startups at or prior to exit
3. Estimated number of active tech startups
4. Growth in output, exit $ and VC $ on a 10-point scale; average = 2.4
5. Estimated number of active tech startups created per 1,000 people
### Talent

<table>
<thead>
<tr>
<th>Metric</th>
<th>Europe Avg.</th>
<th>Silicon Valley</th>
<th>% Delta to Regional Average</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Time to hire engineers</td>
<td>47%</td>
<td>49%</td>
<td>25%</td>
<td>2%</td>
</tr>
<tr>
<td>Software engineer salary</td>
<td>$300bn</td>
<td>$535bn</td>
<td>25X</td>
<td>43X</td>
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<tr>
<td>Remote employees</td>
<td>26%</td>
<td>43%</td>
<td>19%</td>
<td>-28%</td>
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<tr>
<td>Female employees</td>
<td>22%</td>
<td>21%</td>
<td>-5%</td>
<td>-19%</td>
</tr>
<tr>
<td>Foreign employees</td>
<td>30%</td>
<td>45%</td>
<td>85%</td>
<td>25%</td>
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</tbody>
</table>

### Market Reach

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<tr>
<td>Foreign Customers</td>
<td>36%</td>
<td>60%</td>
<td>-40%</td>
<td>56%</td>
</tr>
<tr>
<td>Number of product languages</td>
<td>2.4</td>
<td>2.2</td>
<td>-19%</td>
<td>-11%</td>
</tr>
<tr>
<td>Metropolitan GDP</td>
<td>$12bn</td>
<td>$535bn</td>
<td>45X</td>
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<tr>
<td>Top target Markets</td>
<td></td>
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<td>United Kingdom</td>
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### Startup Experience

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<tr>
<td>Employees with startup experience</td>
<td>39%</td>
<td>48%</td>
<td>-5%</td>
<td>17%</td>
</tr>
<tr>
<td>Advisors with equity</td>
<td>1.05</td>
<td>1.94</td>
<td>155%</td>
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<td>Equity to employees</td>
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1 % Delta to Regional Average, % Delta to Silicon Valley
Supporter & Policy Maker Insights

Local government rated positive

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Immigration time

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Top Policy Issues

- Taxes
- Cost & availability of workspace
- Attractiveness of ecosystem to foreign investors

1 % Delta to Regional Average, % Delta to Silicon Valley
METHODOLOGY
See the Global Startup Ecosystem Ranking 2015 pages 143 & 145 at http://startup-ecosystem.compass.co/ser2015/

SOURCES
Primary Data Sources
(in alphabetical order)
CrunchBase (2015). Crunchbase.com Database [Database]
Startup Compass Inc. (2015). Compass.co Database [Database]
Dealroom.co BV. (2015). Dealroom.co Database [Database]
Orb Intelligence Inc. (2015). orb-intelligence.com Database [Database]

Secondary Data Sources
See the Global Startup Ecosystem Ranking 2015 pages 148 & 149 at http://startup-ecosystem.compass.co/ser2015/

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SURVEY PARTICIPANTS AND INTERVIEWEES
Thanks to the more than 11,000 survey participants and 200 interviewees—with a special thanks to those from Estonia—including startup founders, investors, leaders of accelerators, incubators and startup hubs, and policy makers—across who trusted us by sharing their confidential information and expert knowledge with us. By providing us with solid quantitative data, they created the basis and the heart of our research.

Thank you for your support!

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CrunchBase: Everyday investors, journalists, founders, and the global business community turn to CrunchBase for information on startups and the people behind them.

Dealroom is a data-driven marketplace for private capital, providing direct and secure access to the world's most sophisticated investors.

Global Entrepreneurship Network is a year-round platform of programs and initiatives created by the communities that celebrate Global Entrepreneurship Week each November.

Orb Intelligence: Business Information for B2B Marketing and Sales. Orb provides company information and smart algorithms as a service to marketing software vendors and B2B agencies.

Regional Report Partner
Startup Estonia/Estonian Development Fund is designed to support the positive changes in Estonian economy, investment activity, and growth programs.

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