

COVID-19 Relief and Startups Survey



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Executive Summary

Engine surveyed startups and entrepreneurs in our network to better understand how startups are benefiting from the small business relief efforts included in last month's Coronavirus Aid, Relief, and Economic Security (CARES) Act. The overwhelming majority of respondents said they need immediate liquidity to weather the economic uncertainty. Sixty-four percent of startups said they need emergency financial support at this time, and only nine percent said they were not planning on applying for any of the U.S. Small Business Administration's COVID-19 related loans.

Of particular concern to respondents is the U.S. Small Business Administration's "affiliation rules." Under the current guidelines, venture capital-backed startups may not be eligible to receive Paycheck Protection Program loans because the rule requires them to count count all of the employees of their "affiliates" as their own employees. Forty percent of startups said they were a portfolio company of a venture capital firm.

Highlights

- The average startup in the survey had approximately 25 full-time employees.
- Sixty-four percent of respondents said they need emergency financial support at this time.
- Sixty-five percent of respondents said they planned to apply for the U.S. Small Business Administration's COVID-19 related loans if they qualified.
- Twenty-one percent of respondents who do not need SBA assistance at this time said their startup will likely need financial support within the next six months. Another 36 percent were not sure.
- Forty percent of the startups said that they were portfolio companies of a venture capital firm.
- While only 14 percent of startups so far have laid off employees, 33 percent of startups said they anticipated laying off employees in the next three months as a result of the COVID-19 pandemic. Another 29 percent were not sure.

Introduction

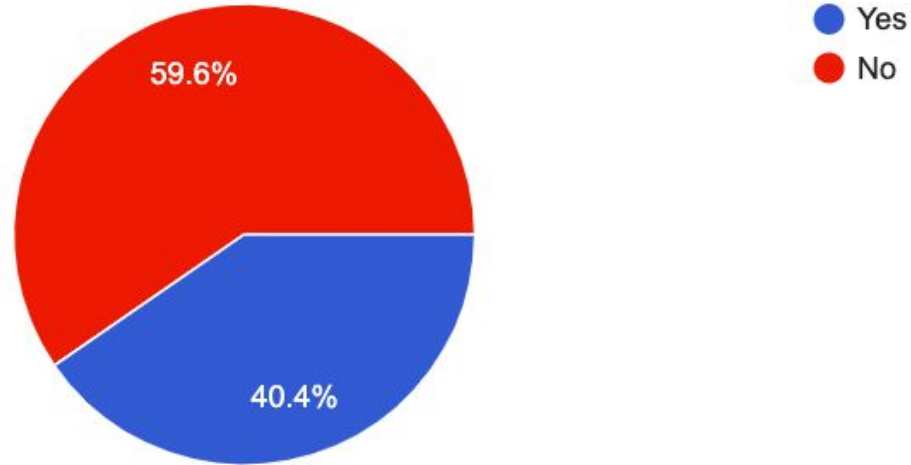
Engine has been working with policymakers to ensure that the CARES Act benefits U.S. startups. With many small businesses—and startups in particular—struggling amidst the COVID-19 pandemic and economic uncertainty, we wanted to fully understand the relationship between last month's stimulus package and the startup community.

Our goal in conducting this survey was to better understand the impact of the pandemic on startups, gather further information about access to economic relief, and collect proposed solutions from entrepreneurs within our startup network. We want to show Congress, federal officials, and state leaders what's working, what isn't, and what else can be done to further support the U.S. startup ecosystem during this uncertain time.

A hallway with a world map on the wall and a person in the distance. The hallway is lit with warm orange light. The world map on the left wall shows Africa, India, and the Pacific Ocean. A person is walking away in the distance through a doorway. The floor is dark red carpet. The right wall is white with a grid pattern. The text 'SURVEY RESPONSES' is overlaid in the center in white.

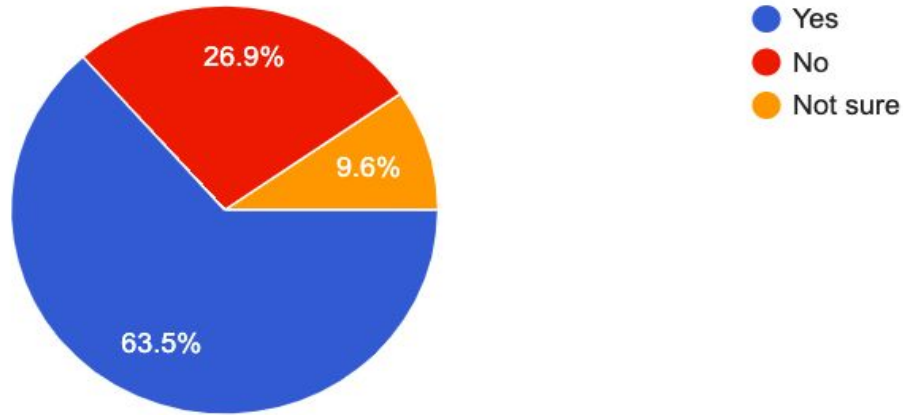
SURVEY RESPONSES

Is your startup a portfolio company of a venture capital firm?

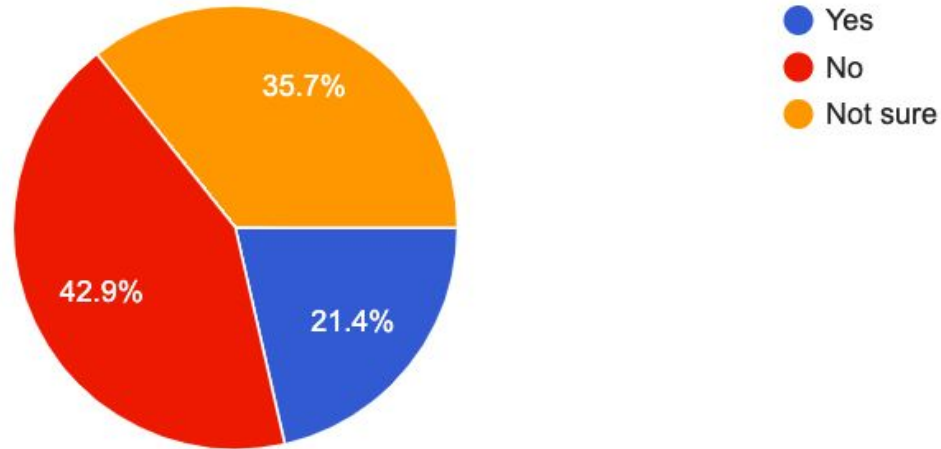


Does your startup need emergency financial support at this time?

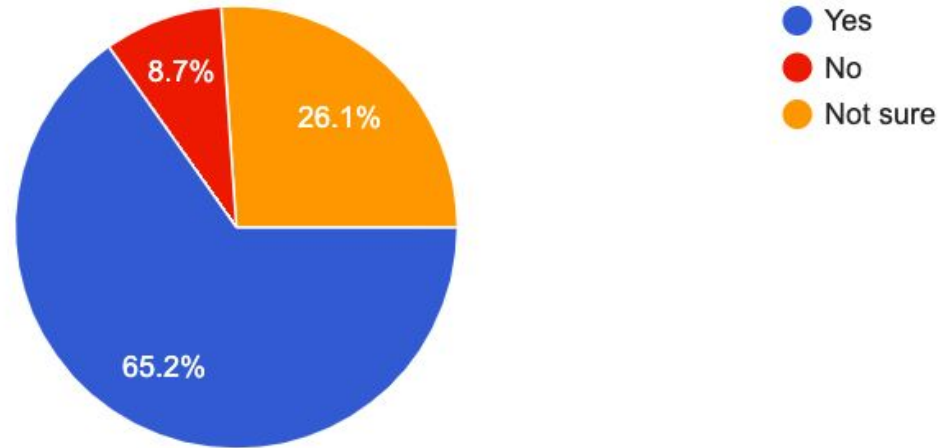
(For the purposes of this survey, emergency financial support refers to: funding necessary to keep your company in business and/or prevent employees from losing their jobs (e.g., payroll costs, rent, or utilities).)



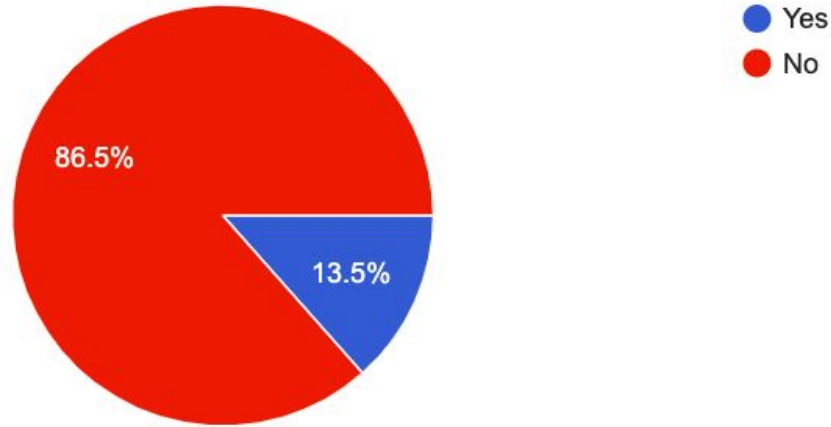
Do you believe your startup will need emergency financial support within the next six months?



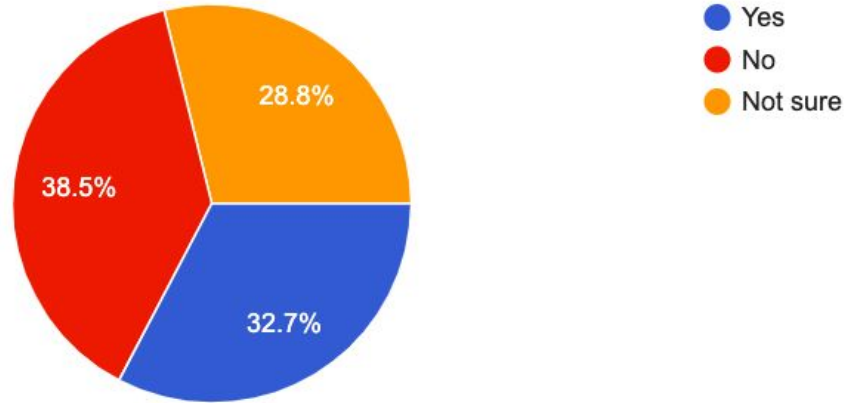
Do you plan to apply for any of the Small Business Administration (SBA)'s COVID-19 related loans, if you qualify?



Have you laid off any employees as a result of the COVID-19 pandemic or the associated economic uncertainty?



Do you anticipate that you will have to lay off employees in the next three months because of the pandemic or the associated economic uncertainty?



A hallway with a world map on the wall and a person walking in the distance. The map shows Africa, the Indian Ocean, and the Pacific Ocean. The hallway has a red carpet and glass walls. A person is walking away from the camera in the distance.

**What additional steps, if any,
could policymakers take to
protect U.S. startups?**

What Lawmakers Can Do

Survey respondents had a variety of ideas for further safeguarding the country's startup ecosystem, including:

- Clarifying and easing the affiliation rules around VC-backed startups and eligibility for PPP loans.
- Increasing limits and easing restrictions on Regulation Crowdfunding.
- Extending assistance to pre-revenue startups.
- Making it easier to access credit building loans.
- Supporting economic development initiatives that promote investments in startups.
- Considering additional relief options beyond loans and tax credits focused on payroll—for example, R&D tax credits, grants, or forgivable loans that look beyond payroll expenses.

Conclusion

Our survey found that startups of all sizes are in immediate need of economic relief. Smoothing out access to the SBA's PPP loans, and clarifying the affiliation rules, is especially critical to the majority of startups in need of immediate economic relief—a sentiment that was frequently echoed by survey respondents (40 percent of whom are at VC-backed firms). Respondents were also concerned about early-stage firms, pre-revenue startups, and self-employed entrepreneurs. Such startups may not be able to benefit from existing loan programs—for example, because it is too difficult to navigate the application process, because payroll-based loan forgiveness is too uncertain at this time, or because early-stage companies may be looking to hire so covering current payroll expenses is irrelevant to their survival. Respondents pointed to these firms as being particularly vulnerable at this time, but also noted how important they are. As one startup founder noted, “if a critical amount of these startups fail, we will fall behind in the innovation race.”