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Examining the post-COVID-19 Shifts in Startup Valuation Strategies: A Case Study of ABC Venture

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Abstract
The "winter tech" phenomenon, marked by employee layoffs and technology usage decline in leading Indonesian digital startups like Go To and Traveloka, is exacerbated by the COVID-19 pandemic, causing a widespread economic downturn, and revealing financial instability. Despite government support, persistent challenges, notably the correlation between layoffs and startup failures, underscore the role of venture capital. The research focuses on understanding venture capital factors, limitations in valuation methods, and addressing the impact of COVID-19 on venture capitalists and changes in startup valuation practices. This research employs semi-structured interviews, primarily with WJA, ABC Venture's Vice President of Portfolio Management, to explore the company's investment strategies. The chosen method aligns with the research objective, offering flexibility for comprehensive insights. WJA's extensive experience and leadership position make him a key informant. The study uses a five-stage thematic analysis process to comprehensively analyze themes related to startup success factors based on interview text. The COVID-19 pandemic has impacted ABC Venture's investments, leading to market corrections and a slower investment pace. However, the rise of online service businesses has increased investment, aligning with the global venture capital market's historic high in 2021. ABC Ventures responds with a cautious approach, emphasizing pandemic-related risk assessment in startup evaluation. They actively seek comprehensive plans from startups outlining strategies for navigating the pandemic before considering funding, focusing on online-centric models, and discovering the "next big thing".

Keywords: venture capital, post-covid-19, startup valuation, valuation strategy

1. Introduction

1.1 Background

Before investing in a company, understanding its valuation is crucial to determine its worth and guide resource allocation. This process aids investors in navigating financial decision-making complexities, providing insights into risks and potential rewards. Investing in early stage startups can yield significant profits, although valuing these newly established companies is challenging due to limited financial information. Over the last decade, Indonesia has witnessed a surge in startups, with approximately 2,509 operating as of September 7, 2023 (data from startupranking.com). Navigating this ecosystem requires careful consideration of factors such as market potential, competitive advantage, founding team expertise, and growth prospects. In the context of the COVID-19 pandemic, understanding how venture capital firms valued startups after such unprecedented events is essential. Disruptions caused by the pandemic necessitated a re-evaluation of methodologies for startup valuations. Insights into variations in valuation practices played a crucial role in developing adaptable strategies, considering the challenges posed by global crises. The pandemic underscored the importance of adaptability and resilience in startups. Studying how venture capitalists evaluated startups post-crisis provides insights into changing investment dynamics, indicating a potential shift towards prioritizing sustainable profitability and managing risks associated with external shocks.

1.2 Understanding Startup and Venture Capital

Startups play a significant role as sources of innovation and technological advancement, serving as pivotal drivers of economic growth (Banal-Estañol et al., 2023). A startup remains a subject of variation among academics and professionals in the business world. In academic literature, a startup is defined as "a company in its early stages of development and growth. Typically, such firms are in the process of introducing their initial products/services to the market, building a customer base, and establishing organizational processes and procedures" (Barhydt, 2023). As per the definition from Binowo and Hidayanto (2023), a digital startup is an entity or organization that leverages information technology, including social media and innovative digital technologies, to address challenges within evolving and uncertain contexts. Their primary objective is to generate revenue and profits by providing services or products to the public. Typically, startups seek funding early in their development, whether for prototyping or scaling the business, as Menon and James (2022) highlighted. Startups can also be categorized as small and medium business enterprises due to the lack of capital in early-stage companies. Research by Sofia et al. (2022) indicates that venture capital plays a pivotal role in small-medium enterprise (SME) growth across diverse economies (Du and Cai 2020; Biney 2018; Engel 2002; Peneder 2010), offering both financial and non-financial support, including strategic guidance, monitoring, and access to business networks (Harrison et al., 2020; Gornall and Strebulaev 2015). Valuating startups, especially in the early stages, is a challenge given the lack of historical data and the uncertainty of many factors related to the future (Widyasthana et al., 2017). Ito (2023) discusses various valuation methods, as noted by Corporate Professionals (2017) in their article in the Review of International Comparative Management (p. 395). There are three frequently employed valuation methods: the cost approach, the market approach, and the income approach. According to Menon and James (2022), the cost approach, market approach and income approach are traditional valuation methods. Traditional valuation methods face significant challenges in the context of technology startup companies. According to Widyasthana et al. (2017), the success of startups in the venture business relies significantly on their interactions with diverse stakeholders, including venture capital (VC) investors, suppliers, regulators, and customers. The study conducted by Widyasthana et al. (2017) has defined variables for startups and their stakeholders by considering the variables described by Festel (2013) and Schefczyk (2001). Additional significant variables were identified by conducting in-depth interviews with an Indonesian VC expert. The interactions between stakeholders in the business ecosystem significantly impact the value of startup variables, enhancing or diminishing the startup's valuation. For a startup to succeed, it must work competitively and cooperatively with stakeholders as agents. However, there is no defined interaction model between multiple

Vol. 8, No.01; 2024

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agents within a venture business ecosystem that leads to the success of a startup (Widyasthana et al., 2017).

1.3 Startup Valuating Method

There are several methods to evaluate a startup, some methods are used for pre-revenue valuations, and others used as a post-income valuation (Nursaadah and Faturohman,2022). This research will discuss startup valuation methods that several researchers are still discussing during the ongoing pandemic.

1.3.1 Berkus Method

The Berkus Method is an approach used to value early-stage companies based on five key factors of success. It was developed in the mid-1990s, and it considers significant risk factors to assign a value to each criterion (Mahajan, Nallari, and Vyas, 2021). However, valuing each factor using this method is subjective and challenging, as noted by Ito (2022). The Berkus Method only focuses on five factors, which may be insufficient for some companies. It is particularly useful for companies projected to achieve over $20 million in revenue by the fifth year of operation (Ito, 2022).

1.3.2 Real Option Method

The real option method is a technique that involves estimating the value of future options. However, this method is challenging to implement due to the complexity of estimating the probabilities associated with each option and the intricacies of the pricing option model (Ito, 2022). This complexity is further compounded by the fact that valuable underlying assets, such as projects, are not actively traded, and they serve as tangible options. Additionally, the model assumes that asset prices are not discrete, and the variance of the model is considered known and stable over a finite number of lifetime options, with instantaneous exercise (Nursaadah and Faturohman, 2022).

1.3.3 Discounted Cash Flow Method

As per Samdani (2019), the discounted cash flow (DCF) method is less precise when applied to unlisted firms compared to listed ones. The DCF method is primarily used to calculate the net present value of a project throughout its entire life cycle, including both the investment expenses and the free cash flow phase during the production stage (Kodukula & Papudesu, 2006). A crucial component of the DCF methodology is determining the weighted average cost of capital (WACC), which comprises two elements: the cost of equity and the cost of debt. Within the cost of equity, an essential measure is the systematic risk of the subject company, commonly known as beta. Beta represents non-diversifiable, operating, and business risk, essentially quantifying the risk that cannot be diversified away (Shaked and Dionne, 2023).

1.3.4 Guideline Public Company Method (GPCM)

The Guideline Public Company Method (GPCM) is a valuation technique that uses publicly traded companies' transaction information in the same or similar business lines as the subject company to derive its value (Lee et al., 2023). This method uses valuation multiples, which are ratios that connect the company's value to various financial performance measures such as EV to

Equity, EV to Assets, EV to EBIT, EV to EBITDA, EV to Net Income, and EV to Gross Profit. By calculating these multiples, an investor can determine the potential market value of a similar business. To ensure the accuracy of comparisons, factors such as business size, operating characteristics, and geographical regions should be considered (Eqvista, December 21, 2023).

1.4 The Impact of Covid-19

The research conducted by Sudjatmoko et al. (2022) highlights the fact that the COVID-19 pandemic caused a global disruption, and it was an unexpected event that demanded responses from individuals, organizations, and institutions, as pointed out by Haneberg (2021). The COVID-19 pandemic has unleashed a global crisis, profoundly impacting lives and economies worldwide (Iacovacci et al., 2023). The long-term consequences of this crisis include reduced orders, increased cost pressures such as rent, wages, and taxes, higher raw material prices, decreased consumer demand, and challenges in finding alternative suppliers, according to the studies conducted by Messabia et al. (2022) and Sucheran (2022). As a result of the pandemic, the international community of governments has collaborated to establish an urgent response plan encompassing strategies for pandemic containment and economic initiatives (Hoshi et al., 2022). Rodrigues and Noronha (2021) have conducted research to investigate the impact of COVID-19 on startup companies as well. COVID-19 pandemic also affects the venture capital investments according to the study by Bellavitis et al., (2021).

1.4.1 Covid-19 impact on startup

The COVID-19 pandemic has caused various risks and uncertainties in society, the environment, and the economy (Oxford Analytica, 2022). These uncertainties have led to shocks in several ways, significantly affecting the landscape for policymakers and creating further uncertainty about the effectiveness of policy decisions (Abdelwahed and Soomro, 2023). The pandemic's economic effects have resulted in extraordinary levels of job loss (Posel et al., 2021). Due to the complications arising from the pandemic, entrepreneurs and the business community have faced significant challenges that have slowed down and affected their enterprise's sustainability (Mustafa et al., 2021). The COVID-19 pandemic has affected entrepreneurial finance globally, with startups, especially in their seed stage, being the worst hit in many countries (Dragan et al., 2022; Brown and Rocha, 2020).

1.4.2 Covid-19 impact on venture capital

The COVID-19 pandemic heightened economic uncertainty for VC investors (e.g., Baker et al., 2020; Kuckertz et al., 2020). Extensive research has been carried out on the influence of global crises on venture capital. During liquidity supply shocks, such as the global financial crisis, Conti et al. (2019) revealed that VCs allocate more capital to ventures in their core sectors. Bellucci et al. (2023) conducted an empirical study on the financial resource reallocation caused by the COVID-19 pandemic. They found that VCs shifted portfolios towards technologies related to social distancing and health concerns. Gompers et al. (2020b) surveyed over 1000 VCs and noted a COVID-19-induced slowdown. However, nearly half of them reported positive impacts, indicating potential reallocation effects. Howell et al. (2020) analyzed VC transactions in the US during the early months of the COVID-19 pandemic and observed a decline in earlystage deals, while late-stage deals were mostly unaffected. This aligns with historical recession patterns, underscoring the impact of global crises on VC investment behavior. Therefore, it is evident that global crises, such as the COVID-19 pandemic, significantly affect venture capital allocation, leading to shifts in investment strategies and portfolio compositions.

1.4.3 Venture Capital Valuation Strategy for Startup in the midst of COVID-19

Investors tend to become more risk-averse during uncertain times, shifting their focus from new and riskier opportunities to existing investments within their portfolios. Alterations in VC investment behavior resulting from the COVID-19 pandemic are often attributed to the management of uncertainty. Variances in VC investor behavior can be explained by their approach to uncertainty. Multiple sources contribute to uncertainty in VC investments, with the first being related to the characteristics of the portfolio firm, referred to as portfolio firm uncertainty (Bellavitis et al., 2021). Bellavitis et al. (2021) discovered that VC investors employ a range of strategies, including specialization, selection, monitoring, value-adding, and syndication, to navigate uncertainty effectively. However, during crises, investments marked by heightened uncertainty lose their attractiveness, and the effectiveness of investor mitigation strategies declines. This trend is evident in the context of the COVID-19 pandemic, where prominent investors notably decrease seed-stage investments in contrast to their less prominent peers. Conversely, there is a concurrent increase in late-stage investments, a pattern observed across both prominent and less prominent investors. Bellucci et al. (2023) observed that the reallocations in the aftermath of the COVID-19 outbreak are not primarily influenced by trends but are likely a rational response to emerging investment opportunities. The study investigates potential effects of reallocation in the venture capital (VC) market resulting from the global impact of the COVID-19 pandemic, exploring whether and how VC firms adjust their investments. Employing a difference-in-differences estimation approach, alongside the staggered spread of the pandemic across countries, the research identifies notable shifts in the flow of venture capital. The findings establish a significant positive empirical correlation between the spread of COVID-19 and VC investment in ventures engaged in pandemic related activities. This finding remains robust through various tests concerning alternative pandemic-related definitions, assumptions within the empirical strategy, measurement errors, and timing conventions.

1.5 Research Question and Research Objective

To gain insight into effective startup valuation practices by venture capital firms, it's crucial to understand stakeholder perspectives and circumstances post-pandemic:

RQ: How have venture capitalists adjusted their startup valuations methods in response to COVID-19?

RO: To provide an overview of the impact of COVID-19 on venture capitalists and investigating changes in startup valuation practices before and after COVID-19.

This research aims to comprehensively examine the methodologies utilized by venture capitalists for startup valuation, after the COVID-19 pandemic. The study will evaluate the strengths and limitations of these methods, focusing on identifying the key drivers of practice changes.

Additionally, it will explore the impact of the pandemic on venture capitalists' priorities, particularly concerning sustainable profitability and risk management in startup valuations.

1.6 Conceptual Framework

Venture capitalists evaluate the feasibility of investing in a startup by assessing its valuation through methods that align with their values. However, the COVID-19 pandemic significantly impacted the business landscape between 2019 and 2022. As a result, this research aims to investigate the factors that influence venture capitalists in assessing the valuation of a startup for investment. It will particularly focus on the changes in these factors after the onset of the pandemic. Understanding these shifts is crucial for comprehending how venture capital decisions have adapted to the evolving business environment.

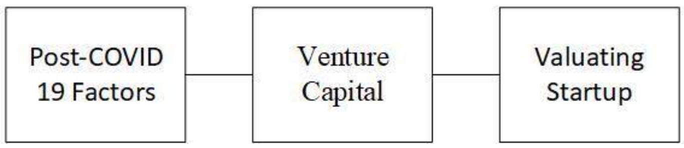

Figure 1 Conceptual framework

1.7 Research Scope and Limitation

This research aims to comprehensively examine the methodologies utilized by venture capitalists for startup valuation, after the COVID-19 pandemic. The study will evaluate the strengths and limitations of these methods, focusing on identifying the key drivers of practice changes. Additionally, it will explore the impact of the pandemic on venture capitalists' priorities, particularly concerning sustainable profitability and risk management in startup valuations. However, it is essential to acknowledge certain limitations inherent to this research:

a. Geographical Focus: The primary focus of the study is to examine the venture capital landscape in Indonesia. It should be noted, however, that the findings are contextually dependent and may not be universally applicable. Distinct economic, social, and regulatory contexts in other regions may significantly impact the results of the study.
b. Data Source: The study may have limited implications in capturing the diversity of venture capital approaches, given its reliance on data from only one prominent firm in Indonesia. It is possible that the findings may not be generalizable to other firms or contexts.
c. Time Constraints: The following research presents a study on startup valuation practices after the COVID-19 pandemic. However, it is important to note that the study's scope was limited to a specific timeframe and may not account for long-term trends.
d. Dynamic Nature: The startup ecosystem constantly develops, while studies offer valuable insights into specific periods, they may not be sufficient to capture the ongoing changes in the venture capital landscape. Therefore, it is crucial to regularly assess and adapt valuation strategies to remain competitive in this ever-evolving industry.

1.8 Future Research Possibility

Future research in the post-COVID-19 economic landscape could investigate nuanced valuation patterns within startup categories, distinguishing between technology-driven enterprises and those outside the tech business. Analyzing valuation trends across sectors, such as the thriving tech startups during COVID-19, could unveil investor preferences and risk tolerance shifts. Examining the role of sustainability practices in boosting startup valuations post-pandemic could clarify the growing importance of sustainable business models. These multilayered inquiries can guide investment strategies by helping investors make informed decisions based on sector-specific or sustainability-related factors. The findings can inform policymaking, enabling the creation of frameworks that encourage the growth of sustainable and value-generating startups in the post-pandemic entrepreneurial landscape. By adopting a tailored approach, this research can unlock the art of valuing startups in the evolving economic reality.

2. Data Collection Method

2.1 Research approach

In the quest for in-depth and nuanced insights into ABC Venture's operations, the researchers chose semi-structured interviews as the primary method for data collection. This approach strikes a strategic balance, offering both flexibility and structure to explore a mix of open-ended and closed-ended questions. Conducted with key individuals within the management team, these interviews ensured a thorough exploration of individual experiences and the strategic perspectives of the company. This method proved instrumental in providing valuable insights and enhancing the overall quality of the collected data.

2.2 Data Analysis Method

In the study conducted by Binowo and Hidayanto (2023) represent a five-stage process for Thematic Analysis (TA). The initial stage of TA involves acquainting oneself with the acquired data before proceeding to subsequent phases (Zhou et al., 2022; Ali et al., 2021). For a more detailed understanding, Clarke and Braun's (2018) recommended stages of TA, encompass the following steps. The first stage entails delving into participant perspectives using recorded interviews, a vital resource for gleaning insights from these conversations. Here, the primary aim is to comprehend the interview data's content. The second stage involves the compilation of codes, which, according to Heriyanto (2018), serve as labels. These codes are formulated based on the preceding record generation step, and researchers subsequently categorize them into thematic groups (Clarke & Braun, 2018). The third stage initiates theme identification, marking the analysis's outset. At this juncture, codes sharing similar meanings are integrated. The fourth stage involves identifying themes that align with the research objectives (Clarke & Braun, 2018; Heriyanto, 2018). In the fifth and final stage, a comprehensive analysis of themes with shared meanings is performed, culminating in selecting and presenting the theme considered a success factor in the startup's pioneering phase.

2.3 Interviewee Characteristics

The selected interviewee, WJA, plays pivotal roles within ABC Venture, offering crucial insights into the company's investment strategies and overall valuation processes. Mr. WJA, serving as the Vice President of Portfolio Management, brings a wealth of experience and expertise to his interviews. His leadership in due diligence, business model assessment, and risk analysis has consistently exceeded industry standards, resulting in significant deals such as Payfazz, Finaccel, and Nium. His achievements include facilitating valuable exit transactions for ABC Ventures.

Since 2015, WJA has been at the forefront of investment operations, steering portfolio strategy, valuations, and divestment initiatives. In his tenure as Head of Investment, WJA made substantial contributions that elevated the fund's performance above industry benchmarks, playing a crucial role in the overall success of the T Group. Before his current role, WJA served as an Investment Analyst at ICN, T Group's incubator, and accelerator program. His involvement with ICN resulted in an impressive 40% follow-on-funding rate, setting a record for any Southeast Asian incubator program at the time. The choice of semi-structured interviews seamlessly aligns with the research objective, providing a dynamic platform to delve into intricate details. This approach allows researchers to pose follow-up inquiries for clarification and a deeper understanding. Conducting these interviews in person adds a layer of engagement, fostering richer insights and contributing to the development of rapport with the interviewees. Throughout the interview process, the researchers remain unwavering in upholding ethical standards, ensuring informed consent, and maintaining strict data confidentiality.

2.4 Research Design

It is crucial to outline the methodology used to derive insights from interview data. Following the completion of interviews, the gathered data will undergo analysis, primarily utilizing Thematic Analysis (TA). Thematic Analysis serves as an appropriate method for addressing questions related to individuals' experiences, interpretations, and viewpoints, all of which are considered from the informants' perspectives. In this research, Thematic Analysis will be applied to unearth critical factors associated with startup valuation in post-COVID-19 period.

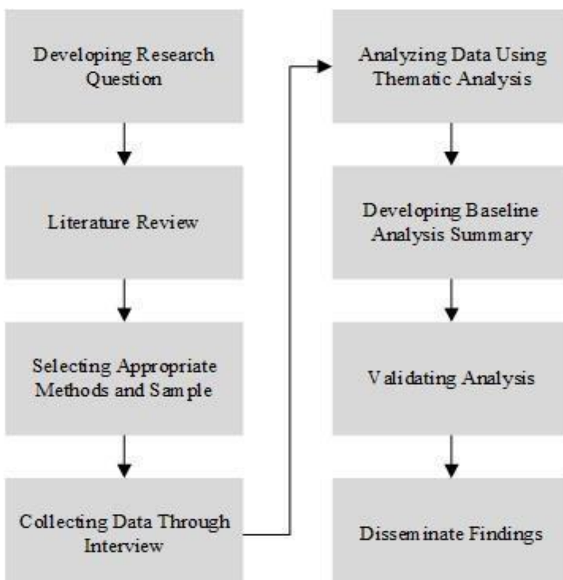

Figure 2 Research design

3. Results

In this section, the researcher will examine the results of the interviews in detail. The systematic steps outlined in the thematic analysis process explained earlier will be used to ensure a precise and comprehensive analysis. The analysis flow has been structured to follow the guidelines

Vol. 8, No.01; 2024

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detailed earlier, and it will help to unravel the underlying themes embedded in the interview data. By following this well-defined flow, the study aims to provide a strong foundation for the ensuing discussions and interpretations, improving the overall reliability and validity of the findings.

3.1 Data Analysis

During the data collection process, the researcher interviewed an influential source involved in making startup investment decisions. The results of this interview are considered primary data. The source provided detailed accounts of his best decisions in the situations discussed. During the interview, he described his experiences and the contexts in which he made the decisions. It was evident from the interactions with the source that he took specific steps to evaluate the value of a startup or company after the COVID-19 pandemic. Researchers used thematic analysis to group the information obtained from the source in post-pandemic periods. The following are the open and axial coding from the interview, revealing key patterns and insights that will inform the comprehensive understanding of the shifts in startup valuation practices in the aftermath of the COVID-19 pandemic:

Table 1. Open and axial coding

Open code	Axial code
Market correction Performance correction Company's struggle to raise funds Company's struggle to secure business in the short term	The COVID-19 pandemic's negative impact on the industry
The popularity of online services (online commerce, online payment) More money is being poured into the emerging online services There is a huge uptick in valuation in 2021	TheCOVID-19pandemic'spositiveimpact on the industry
Responding to market changes Responding to LP risk adjustment Startup applications to VCs must include a plan to address the pandemic VC takes extra care in assessing the startup business	in the COVID-19 pandemic situation, VC is more risk-averse in valuing startup
VC picks companies that are more online-centric rather than physical-centric Considering the ability to withstand and recover from the pandemic Considering resilience as one of the key factors Considering the startup's ambitious plans Toward the post-pandemic future	Changes in VC preference sine valuating startups
Recognition that not all businesses are equal Understanding the diversity in business	Businesses quality awareness

Open code	Axial code
landscapes	
The pace of investment is decreasing Uncertainty as a key factor in investment slowdown	VC situation during COVID-19 pandemic
Return to normal after fighting COVID-19 for over 2 years The market understands this verity and the impact of the pandemic Stabilization of post-pandemic market conditions	PostCOVID-19recovery
In 2021, the global venture capital market has risen to an all-time high Considering to identify the "next big thing" for investment VC trying to capitalize on the opportunity	VC strategic capitalization

Table 2. Selective coding

Selective code	Axial code
COVID-19s impact on venture capitalists and startup valuation practices.	• TheCOVID-19pandemic'snegative impact on the industry • The COVID-19 pandemic's positive impact on the industry • intheCOVID-19 pandemic situation, VC is more risk-averse in valuing startup • Changes in VC preference sine valuating startups • Businesses quality awareness • VCsituationduringCOVID-19 pandemic • PostCOVID-19recovery • VC strategic capitalization

3.3 Findings

The findings of the study have significant implications for both venture capitalists and startups, especially in response to the challenges and opportunities posed by the COVID-19 pandemic. For venture capitalists like ABC Venture, the practical implications involve a more detailed approach to valuation and risk management. Due to the pandemic, startups are being assessed with increased caution, leading to changes in evaluation criteria. Venture capitalists are now incorporating pandemic-specific risk adjustments, recognizing the unique challenges businesses face in the current scenario. Therefore, ABC Venture is now requesting comprehensive plans that address the ongoing pandemic. This underscores the importance of startups demonstrating adaptability and resilience in their business models. The findings suggest that venture capitalists are shifting their investment focus towards online service businesses. This is primarily due to the increased demand caused by the pandemic, which has led to a notable increase in the valuation of such companies. Venture capitalists are now actively seeking opportunities within the online services sector, reflecting a more opportunistic yet cautious approach. For startups looking to secure funding, this means they need to provide comprehensive plans that address the challenges posed by the ongoing pandemic. Startups must demonstrate their ability to navigate uncertainties and capitalize on emerging opportunities to showcase their strategic planning and adaptability. The stabilization of market conditions after the COVID-19 pandemic is a significant moment for both venture capitalists and startups. Venture capitalists, such as ABC Venture, have gained a comprehensive understanding of the pandemic's severity and impact and are now re-evaluating their investment strategies. The surge in the global venture capital market in 2021 is a signal of renewed confidence and potential for growth. ABC Venture is diligent in evaluating startups, with a particular preference for online-centric models, as a strategic response to the changing market dynamics. The practical implications highlight the need for venture capitalists to adopt a cautious yet proactive approach to investment. Startups must also align with these expectations by demonstrating adaptability and strategic planning in the ever-changing post-pandemic business landscape.

4. Discussion

The ongoing COVID-19 pandemic has significantly impacted the investment landscape of ABC Ventures. It has presented several challenges, heightened economic uncertainty for VC investors as noted by Baker et al. (2020) and Kuckertz et al. (2020). The long-term consequences of this crisis include reduced orders, increased cost pressures, higher raw material prices, and challenges in finding alternative suppliers (Messabia et al., 2022; Sucheran, 2022). The pandemic has also opened new opportunities for investment, as VCs have shifted their portfolios towards technologies related to social distancing and health concerns, as highlighted by Bellucci et al. (2023). The international community of governments has collaborated to establish an urgent response plan encompassing strategies for pandemic containment and economic initiatives (Hoshi et al., 2022). According to a study by Bellavitis et al. (2021), venture capital (VC) investors utilize different strategies such as specialization, selection, monitoring, and value-adding to make informed investment decisions. Bellucci et al. (2023) discovered a significant positive empirical correlation between the spread of COVID-19 and VC investment in ventures engaged in pandemic-related activities. This is consistent with ABC Venture's response to the ongoing pandemic, where they prioritize startups with resilient plans to address the crisis in demonstrating great adaptability of the business to the pandemic. ABC Venture is slowly returning to normalcy after the COVID-19 pandemic. This reflects the resilience and adaptability of societies in embracing the "new normal" (Volberda et al., 2021; Bai et al., 2021; Rowan and Galanakis, 2020). The company recognizes the severity of the market impact and is stabilizing post-pandemic conditions. As the global economy slowly adjusted to the new normal, venture capital activity rebounded in the latter part of 2020 and continued to increase throughout 2021 (Pitchbook, 2022). In 2021, there was a significant surge in global investment in the venture capital market, reaching an all-time high, as reported by UNCTAD (United Nations Conference on Trade and Development) (2022) and also this recovery was evident across all regions and surpassed pre-COVID-19 levels, emphasizing the resilience and revitalization of the global

Vol. 8, No.01; 2024
ISSN: 2456-7760

venture capital landscape. ABC Venture responded to changing market dynamics by altering its investment strategy. The impact of the COVID-19 pandemic on venture capital (VC) investments has been extensively studied. Niculaescu et al. (2023) used multivariate regressions to demonstrate a decline in seed-stage investments during COVID-19, coupled with an increase in early and late-stage investments. Additionally, Bellavitis et al. (2021) highlighted a more pronounced decline in investments in seed-stage ventures, particularly in industries heavily affected by the COVID-19 crisis and international investments, based on their study with a dataset of 39,527 funding rounds across 130 countries occurring before and during the pandemic. ABC Venture now primarily invests in startups that offer online products rather than physical products. This shift in focus allows ABC Venture to stay ahead of the curve and capitalize on the growing trend of online businesses. In the comprehensive study surveying over 1000 venture capitalists at more than 900 firms, Gompers et al. (2020b) delve into the shifts in investment strategy prompted by the COVID-19 pandemic. Despite noting a general slowdown in investment during the pandemic, the study reveals a significant finding approximately half of the respondents acknowledge a positive impact. This underscores the potential reallocation effects brought about by the pandemic on venture capital investments (Belluci et al., 2023). ABC Venture's active pursuit of the "next big thing" reflects a forward-looking approach to navigating the evolving post-pandemic business landscape. This strategic orientation aligns with the perspective presented by Shaked and Dionne (2023), emphasizing that in the post-pandemic world, developing and testing the reasonableness of financial projections becomes more reliable the further we move away from the pandemic. Management's enhanced understanding of the changes in the company's business, as outlined by Shaked and Dionne (2023), contributes to the accuracy of projections. This insight enables ABC Venture to make more informed and precise projections, enhancing its ability to identify and capitalize on emerging opportunities. ABC Venture adopts a proactive and innovative approach in its valuation activities. This involves meticulous consideration of factors such as liquidation preference and participating terms, strategically designed to mitigate uncertainty risks. As highlighted by Broughman and Wansley (2023), venture capitalists (VCs) engage in a unique capital exchange by acquiring preferred stock. The preferred stock comes with a "liquidation preference," granting priority to its holders over common shareholders in the event of a sale or liquidation. Typically set to "1x," the liquidation preference ensures that preferred shareholders receive their initial investment in full before common shareholders receive any proceeds. Notably, VCs holding participating preferred shares receive both the cash equivalent of converting to common stock and the payout from their liquidation preference (Broughman and Wansley, 2023). This strategic approach underscores ABC Venture's commitment to navigating the complexities of investment outcomes.

5. Conclusion

The COVID-19 pandemic has brought significant challenges and opportunities for both venture capitalists and startups. Venture capitalists, such as ABC Venture, are now faced with a complex valuation and risk management landscape. As a result, they are reassessing startups with modified evaluation criteria, and pandemic-specific risk adjustments are becoming integral. ABC Venture, for example, now requires comprehensive plans addressing the ongoing pandemic, highlighting the importance of startups demonstrating adaptability and resilience in their business models. The study reveals that ABC Venture is turning towards online service businesses. Bellavitis et al. (2021) suggest that the response of investors to COVID-19 cases in the biotech sector is influenced by government signals, particularly investments in healthcare. The COVID-19 pandemic resulted in elevated valuations for technology, biotech, pharmaceutical, and health-tech startups during initial public offerings (IPOs). However, there is apprehension regarding their performance post-IPO (Pitchbook, 2021b). Another study reveals most biotech startups went public less than 4 years after the foundation, suggesting that early-stage biotech firms received substantial amounts of VC funding (Huayamares et al., 2022). This shift reflects a more opportunistic yet cautious approach as venture capitalists actively seek opportunities within the online services sector. For startups seeking funding, comprehensive plans addressing pandemic challenges are crucial. Successful startups must demonstrate strategic foresight to navigate uncertainties and capitalize on emerging opportunities by showcasing adaptability and resilience. Post-COVID-19, the stabilization of market conditions is pivotal, prompting venture capitalists like ABC Venture to reassess and adapt their investment strategies. The surge in the venture capital market in 2021 signals renewed confidence and growth potential. ABC Venture's diligence in evaluating startups, particularly favoring online-centric models, reflects a strategic response to evolving market dynamics. In practice, these implications underscore the need for venture capitalists to balance caution with a proactive stance in their investment decisions. Simultaneously, startups must align with these expectations, emphasizing adaptability and strategic planning to thrive in the ever-changing post-pandemic business landscape.

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