

STARTUP FUNDING AND OUTLOOK SURVEY REPORT

Getting a Pulse on the
St. Louis Startup Ecosystem
for Entrepreneurs and Investors



ANDERS
CPAs + ADVISORS

WHAT'S INSIDE

1 Executive Summary

INSIGHTS: STARTUPS AND ENTREPRENEURS

3 Demographics

4 Startup and Founder Challenges

5 Seeking Funding

6 Funding Sources

7 Funds Raised

8 Startup and Founder Outlook

INSIGHTS: INVESTORS AND FUNDING SOURCES

11 Startup Characteristics Attracting Investors

12 Recent Investments

13 Investment Outlook

14 St. Louis Startup Economy

15 St. Louis Economy

A MESSAGE FROM OUR TEAM

The COVID-19 pandemic interrupted the ongoing development of the St. Louis region's startup ecosystem and, even after the pandemic ended, economic challenges continued to impact startups and investors here and nationwide. With over a decade of experience working with and supporting local startup companies, the Anders Startup and Entrepreneurial Services team is committed to helping foster the region's resources and opportunities available for startups today and in the future. To explore how external pressures affected funding efforts, both for startups and funding sources who invest in them, we launched our inaugural Startup Funding and Outlook Survey. Reaching out to area investors and startups, our survey aimed to answer the question:

“Where is the St. Louis startup ecosystem heading?”

EXECUTIVE SUMMARY

The St. Louis startup ecosystem is still recovering from its lull during the height of the COVID-19 pandemic, but both investors and startups are eager to get back to business as usual. As events and competitions resume, picking up speed and attendees with each successful networking opportunity, Anders CPAs + Advisors checked in with startups and funding sources to determine the status of the region's startup ecosystem.

Overall, **the top concerns for startups included finding funding and increasing their workforce**. Of respondents who indicated that they were currently seeking funding, 70% reported difficulties in obtaining funding, with 57% of those respondents citing the economy as the reason.

70%
of startups reported difficulties obtaining funding

Startup founders gave an average of 6.8 out of 10 when it came to their confidence in the St. Louis startup community to provide adequate resources for their startup. When asked to rank their feeling of security in their startup, given current economic conditions such as high inflation and interest rates, and the collapse of Silicon Valley Bank, it ranked slightly higher at 7.1 out of 10.

Funding sources gave a similar rank for their own feeling of security in their investments, ranking it an average of 6.9 out of 10. A majority of investors, 52%, reported that the economy was not impacting their investment decisions, although 29% of respondents answered that they were investing less as a result.

6.8/10
confidence score in the St. Louis startup community being able to provide adequate resources

Regardless, investors are still active in the region's startup community, with 71% of respondents having invested within the last three months. The majority of investments, 70%, typically fell under \$200,000. The top three industries of interest to investors were AgTech, BioTech and Health Care.

To measure the St. Louis startup community's continued recovery in a post-COVID ecosystem, Anders requested information from respondents pertaining to their challenges, funding and confidence in the region. Overall, respondents were cautiously optimistic about the growth of their businesses or investments, although all acknowledged that the region still has room to improve.

71%
of investors have invested in the last 3 months





INSIGHTS: STARTUPS AND ENTREPRENEURS

Startups have experienced whiplash over the past few years due to sudden shifts in the ecosystem largely due to the COVID-19 pandemic. Securing funding has always been vital to a startup's ability to grow and embark on new initiatives, but shifting investor priorities and increased competition in early stage fundraising has completely altered the playing field. Survey respondents were asked questions to help determine pain points, particularly with raising capital, and how the St. Louis startup community can provide better support for founders.

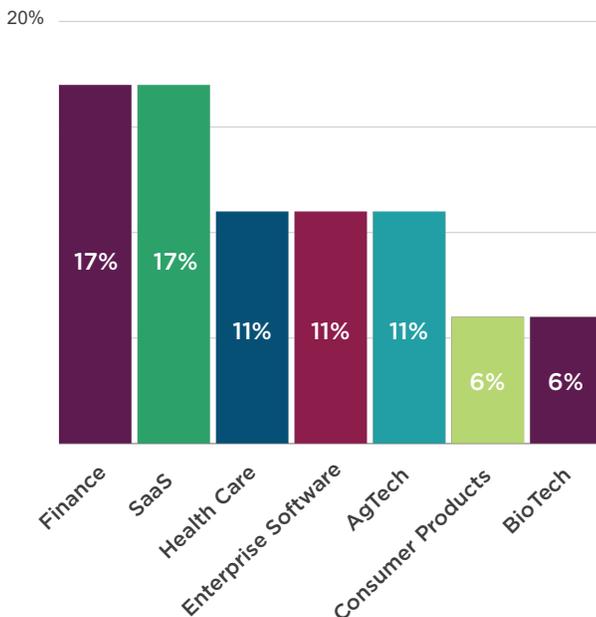
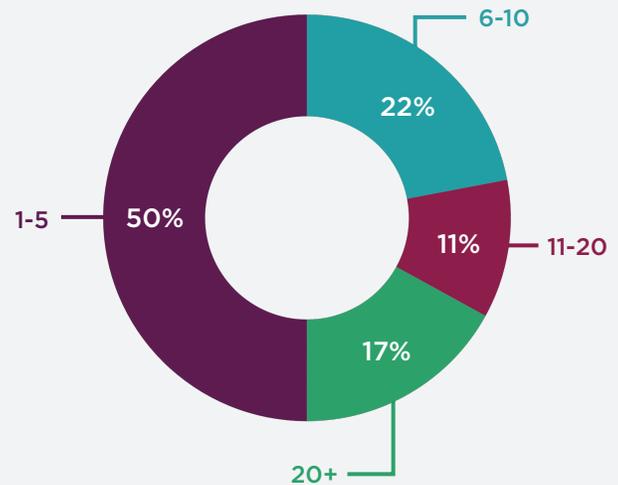


NUMBER OF EMPLOYEES

Trend

Of the 17% of respondents with 20 or more employees, all had received funding in the last 12 months, with 33% still seeking funding and struggling to find it. These respondents expected to raise additional funds in the next 12 months but were only middle of the road when it came to confidence in St. Louis' ability to provide the resources they needed to continue to grow.

Meanwhile, smaller but growing startups (11-20 employees) hold a favorable view about the future of their startup, with an average rank selection of 8, but are split on the availability of funding in the region, with 50% saying it's Weak while 50% say it's Average.



INDUSTRIES

Trend

On the investor side, Health Care, BioTech and AgTech are the industries investors in the region are most interested in investing in, but they represent the industries least present on the startup side. This disconnect of industries could explain why startups in other industries are struggling to raise capital.

100% of the respondents in Health Care, BioTech and AgTech successfully raised funds within the last 24 months, with 80% of those respondents expect to raise funds in the next 12 months. 60% are currently struggling to raise capital.

Defining BioTech and Health Care

Despite the overlap between BioTech and Health Care, these fields have entirely different focus areas and scope. BioTech is the study of biology to specifically create new products. That may include a new vaccine or developing new antibiotics, but it could also be used to genetically alter crops or create biofuel. Health Care, on the other hand, is purely centered on well-being, creating a much more limited scope.

TOP FOUNDER CHALLENGES

Breaking Down “Other” Choices

Respondents also indicated that their challenges include:

Regulations

Research and Development

Logistics

Marketing

22% of all respondents selected “Not Applicable” as a response.



Funding
50%



Workforce
50%



Networking
21%



Sales/Growth
21%



Other
29%



Sales/Customers
53%



Funding
47%



Workforce
24%



Development of
Minimally Viable Product
18%



Scale
18%



Marketing
18%

TOP STARTUP CHALLENGES

Other Noted Startup Challenges

Respondents also noted the following among their concerns:

Competition

Networking

Industry Partners

Regulatory Challenges

Trend

Top of mind for startups and their founders appears to be Funding, their Workforce and Networking concerns. Secondary concerns (Marketing, MVP Development, Scale) feed into those areas (i.e., marketing can help drive leads, which helps sales and helps add to runway).

56% OF RESPONDENTS INDICATE THAT THEY ARE CURRENTLY SEEKING FUNDING

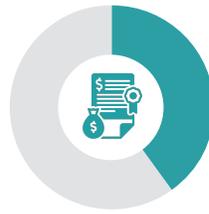
Those respondents listed the following as the top types of funding they are currently pursuing:



Venture Capital
70%



Angel Investors
50%



Grants
40%



Family Office
40%



Incubator/Accelerator
20%



Family and Friends
10%



Strategic Investors
10%

FUNDING STRUGGLES

Trend

30% of startup founders who indicated that they are seeking funding also responded that they were not having trouble raising funds. 67% of those respondents reported that they'd successfully raised funds within the past 3 months, while another 33% indicated that they'd received funding in the past 6 months. These respondents were also more optimistic about their ability to raise funds within the next 12 months and rated the funding availability in St. Louis at an average of 7.7.

70%

of respondents currently seeking funding reported difficulties in raising capital and bridge financing respectively.

of that 70%:

57%

cited the economy as the reason they believed they hadn't been able to raise capital.

10%

of respondents indicated that they received their funds via convertible notes.

TOP FUNDING SOURCES



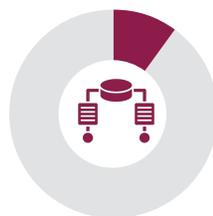
Angel Investors
33%



Family and Friends
33%



Venture Capital
28%



Bootstrapping
11%



Strategic Investors
11%



Family Office
6%



Private Equity
6%



Incubator/Accelerator
6%



Grants
5%



“Local startups are tapping into global funding streams, but let’s not overlook the wealth of resources right here at home. Angels and local funds possess invaluable networks that can fuel success. Let’s actively seek out promising founders and invest in our own backyard for a stronger startup ecosystem.”

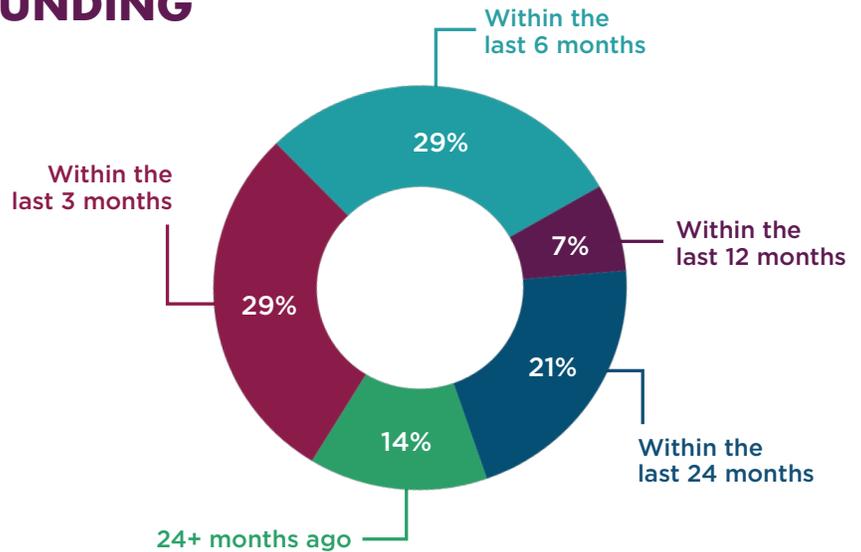
MICHAEL SEAMAN | CEO, Swipesum



LAST TIME RECEIVING FUNDING

Trend

40% of startups that haven't raised funds since launching their business don't expect to fundraise in the next 12 months, with 20% indicating that they're unsure if they will seek funding in that same timeframe. Another 20% responded that they do expect to raise funds in the next 12 months. Startups that hadn't raised funds had a generally middling confidence in St. Louis' ability to provide their business with the resources they need to grow, with 60% rating it as a 5.

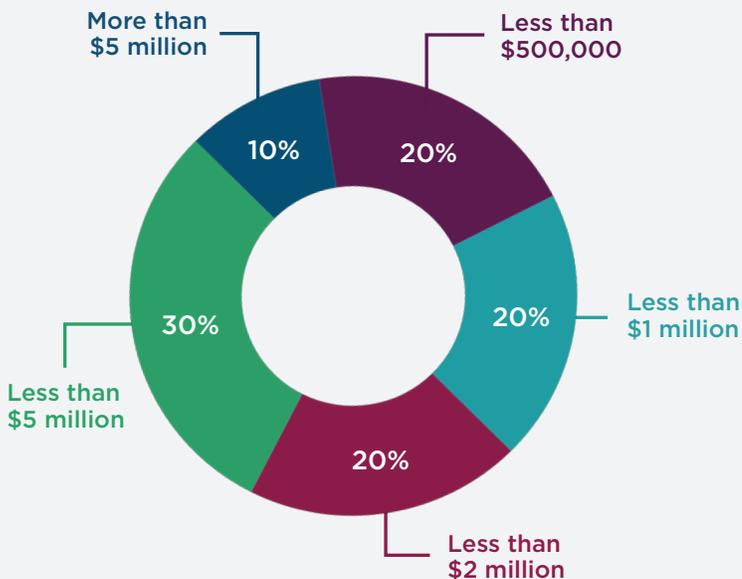


28% OF RESPONDENTS INDICATED THEY HADN'T RAISED ANY CAPITAL SINCE THEIR LAUNCH

FUNDING RECEIVED IN THE LAST 12 MONTHS

Trend

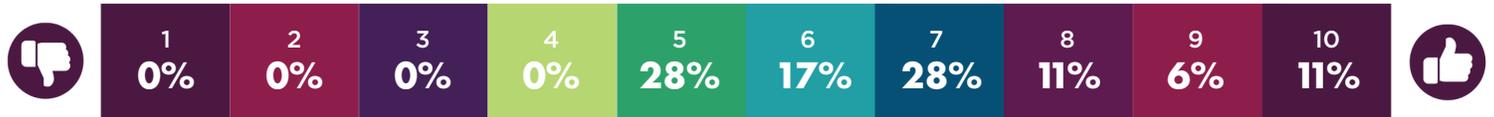
Half of the respondents who hadn't raised capital in the last 12 months don't expect to raise funds within the next 12 months. Out of all respondents, 22% of those who didn't expect to raise funds in the next 12 months have already secured funding since their startup's founding, with 50% of that group having raised funds within the last 12 months. Those respondents were in the top 10% of startup fundraisers and gave an average rating of 7.5 when asked how confident they were in the St. Louis region's ability to provide the resources they needed for growth. 39% of all respondents indicated that they don't expect to raise funds in the next 12 months.



44% OF RESPONDENTS INDICATED THEY HADN'T RAISED CAPITAL IN THE LAST 12 MONTHS

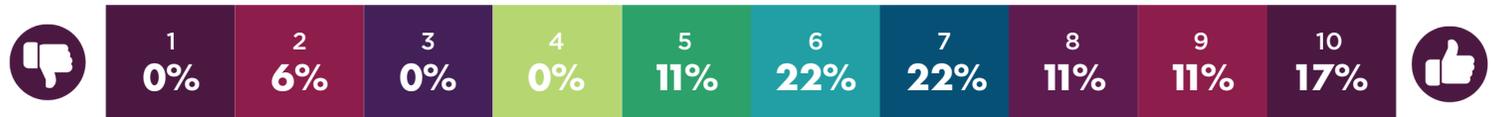
Can the St. Louis startup community provide adequate resources for your startup to grow?

scale of 1-10



Given the current economic environment, how secure do you feel about the future of your startup?

scale of 1-10



How is the availability of funding for the St. Louis startup community?

WEAK 22% **AVERAGE** 61% **STRONG** 0%

Trend

At the lower end of the spectrum (the respondents who selected 5 or lower), three out of eighteen respondents indicated that they didn't expect to raise funds within the next 12 months. Of those three respondents, only one had raised any capital since founding their company and none raised funds within the last 12 months, which could hint towards the reason for their pessimism.



“The results from the survey confirmed what I’d hoped it wouldn’t: St. Louis doesn’t have enough institutional money. Funding is the top challenge for founders in St. Louis. Their top two funding sources are angel investors and family/friends, which tells me that the challenge is raising funds for series A and beyond. We definitely have some great VC firms in St. Louis, we just need more of them.”

KYLE KRAHL, MBA, ASA

Forensic, Valuation and Litigation Senior Manager, Anders

ST. LOUIS STARTUP AREAS NEEDING IMPROVEMENT

COMMUNITY

- ▶ Expanding networking opportunities
- ▶ More collaboration between innovation districts
- ▶ Establishing a founder's club

ENTREPRENEURIAL/STARTUP FOUNDER DEVELOPMENT

- ▶ Coaching and experience for founders and entrepreneurs
- ▶ Introductions to "qualified" investors
- ▶ Improve leadership qualities in founders and entrepreneurs

COLLABORATION

- ▶ Increased collaboration between entrepreneurs
- ▶ Innovation districts increasingly working together

FUNDING

- ▶ Funding opportunities for diverse communities and women of color
- ▶ Additional and expanded Venture Capital funding in the region
- ▶ Old-money mentality reducing funding availability

WORKFORCE

- ▶ Need to develop more engineering talent
- ▶ Increase the pool of qualified technical co-founders
- ▶ Retain talent from regional universities

ST. LOUIS AREA

- ▶ Improve safety for the region
- ▶ Address the cities' dwindling population
- ▶ Increase awareness of the region's attributes

FOUNDER RESOURCES

- ▶ Tech STL
- ▶ Arch Grants
- ▶ Greater St. Louis

Trend

A majority of respondents didn't list a single improvement in the region, which indicates that they're still waiting for significant changes.

Where has the St. Louis startup community improved over the last 12-14 months?

61% of respondents indicated that there were no improvements, or they weren't sure how the community improved over the last 12-24 months. Of that group, 55% reported there were no improvements, with one respondent citing COVID as a disrupter to improvements in the region.

Trend

A majority of respondents didn't list a single improvement in the region, which indicates that they're still waiting for significant changes.



INSIGHTS: INVESTORS AND FUNDING SOURCES

To understand the entirety of the St. Louis startup ecosystem, Anders designed a separate but related survey for startup investors and funding sources in the region. Finding funding and raising capital are huge parts of a startup's lifecycle, and we sought to understand the perspectives and outlook from the funding side. A major theme of responses from startups was the availability and accessibility of funding, which made funding sources the other half of this puzzle to determine the health of the region's startup ecosystem.

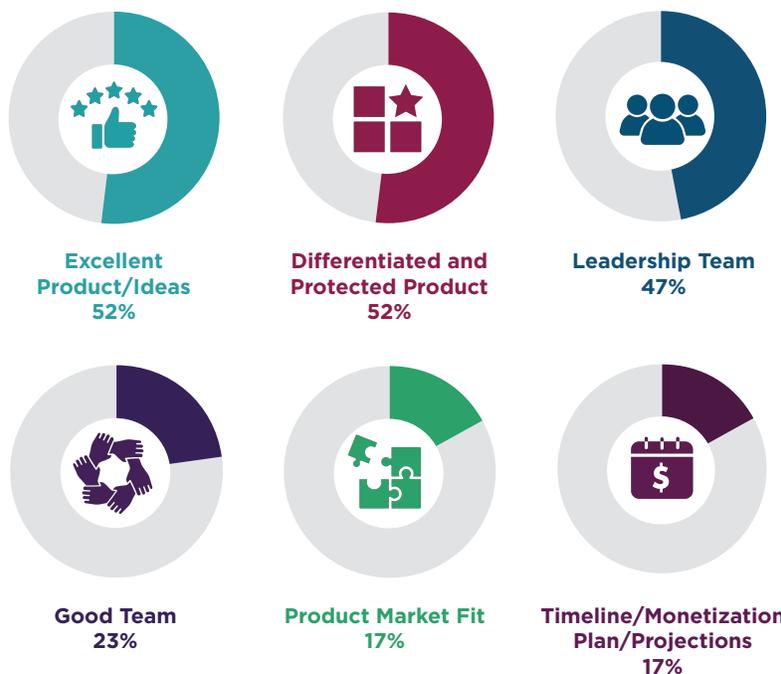
By examining not only the amounts of funding investors deliver to startups but also the characteristics and specific industries that interest them most, a clearer picture of the startup community could emerge. Recognizing how these factors impact a potential investor's decision to fund a startup can help founders make improvements to their pitching process or internal functions. Investors can also use the information provided below to get a pulse on how economic factors have impacted others in their field and compare it with their own plans for future investments.



FACTORS INVESTORS WANT TO KNOW BEFORE INVESTING IN A STARTUP



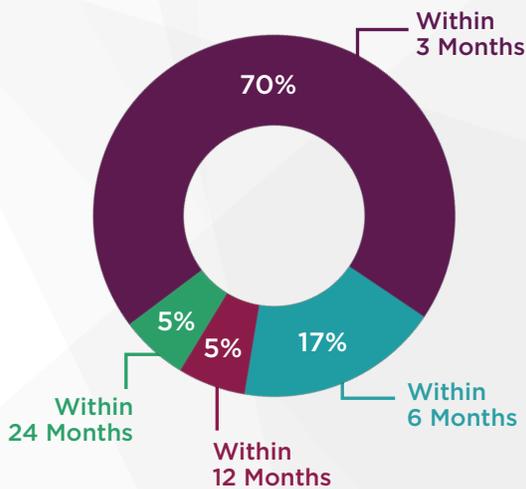
TOP CHARACTERISTICS OF AN OUTSTANDING STARTUP



Trend

High quality products and ideas are top of mind for investors. Before investing in a startup, investors want to see that the startup has done due diligence on the market, including competition and target market. While still a top characteristic, financial projections and a plan for monetization rank behind a good team, leadership and product for investors.

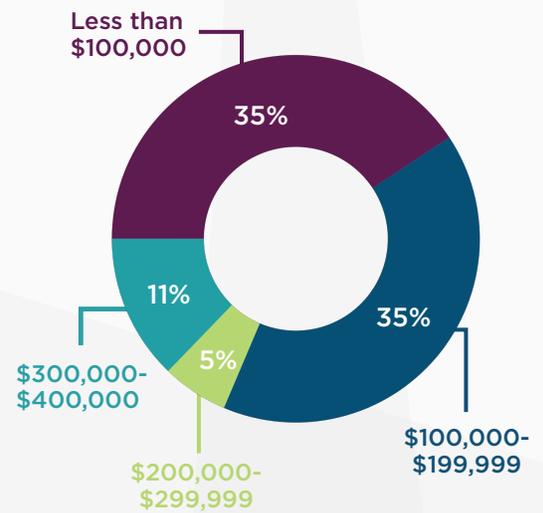
MOST RECENT STARTUP INVESTMENT



Trend

30% of startup founders who indicated that they are seeking funding also responded that they were not having trouble raising funds. 67% of those respondents reported that they'd successfully raised funds within the past 3 months, while another 33% indicated that they'd received funding in the past 6 months. These respondents were also more optimistic about their ability to raise funds within the next 12 months and rated the funding availability in St. Louis at an average of 7.7.

AMOUNT INVESTED IN THE LAST 12 MONTHS



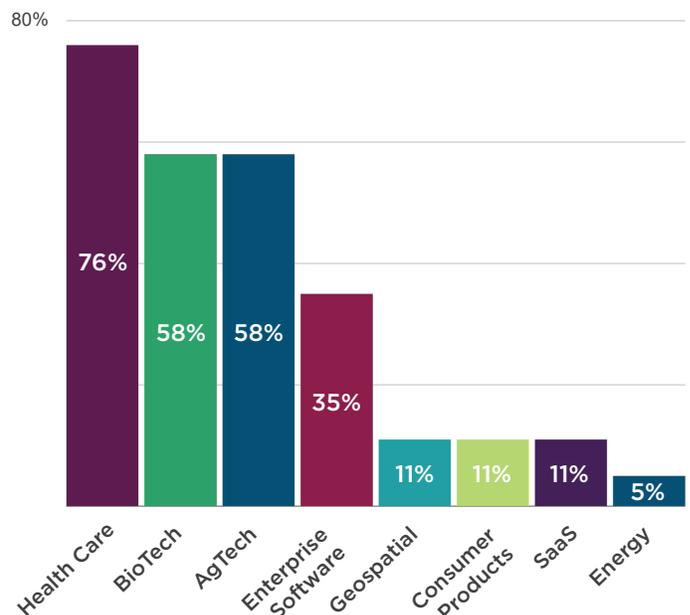
Defining Seed and Angel Fundraising Rounds

The seed and Angel stages are sometimes used interchangeably due to similarities in funding sources and objectives, but each is distinct. The seed stage, also called the family and friends round, typically refers to the earliest and riskiest phase of the startup lifecycle.

The Angel stage generally comes after the seed stage when the company is more developed, meaning it has developed a prototype, proven its market potential and may have even collected customers or begun bringing in revenue.

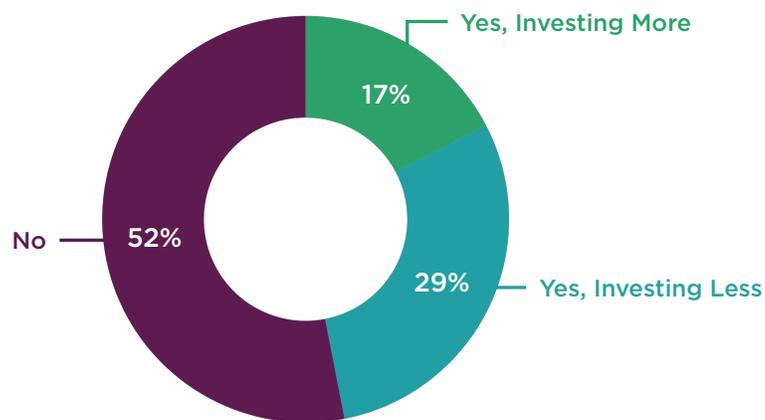
INDUSTRIES ACTIVELY INVESTING IN AND INDUSTRIES UNDER CONSIDERATION FOR INVESTMENT

Although they were offered as options, no respondents selected either Fashion or Education as industries they were either currently or planning to invest in.

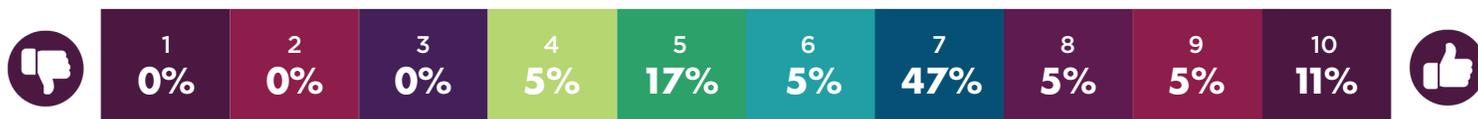


CURRENT ECONOMIC OUTLOOK

Is the current economic environment impacting your investment decisions?



Given the current economic environment, how secure do you feel about the future of your startup investments?
scale of 1-10



Trend

Comparing the outlooks for both investors and startups, investors are marginally more optimistic about the future of their investments than founders are about the future of their startups. 62% of startup respondents ranked their security at a 7 or higher compared to 68% of investors. Likewise, only 27% of investors ranked their security at a 6 or less while 36% of startups did the same.





"Since the pandemic years, I have seen many great startups struggle to obtain the capital needed to continue their journey. The St. Louis Arch Angels have had some of our best funding years during this period, but we can't do it alone.

Many of the venture capital funds have decided to move "up round" to the A and B round levels. This development has challenged the amount of capital available at the "seed level." Increasing the number of angel investors can offset this development.

I believe we must also do a better job of communicating between angel investors and venture capital firms so that longer-range funding plans for individual startups can be developed and followed over the course of their journeys. This will help us keep these startups and their talented teams in our region for the long term and help the St. Louis startup ecosystem continue its upward trajectory for success."

BRIAN KINMAN | Chairman, Arch Angels



TOP FACTORS ATTRACTING STARTUPS TO ST. LOUIS



Already Home
44%



Startup Ecosystem
31%



Low Costs and Quality of Life
25%



Workforce
19%



Agriculture Cluster
13%



Customer Base
13%

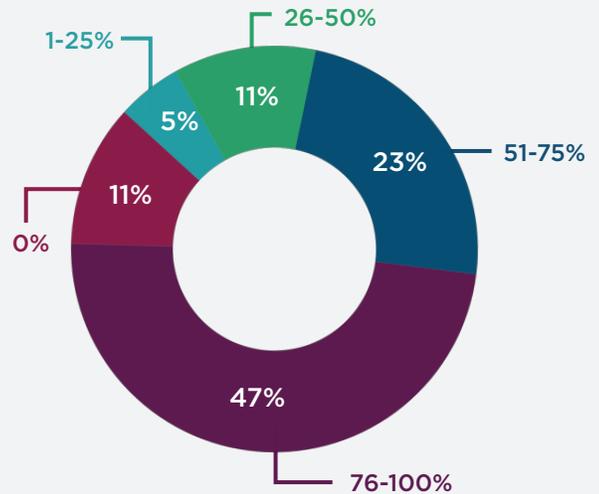


Local Universities
6%

PERCENTAGE OF FUNDS SPENT IN ST. LOUIS IN THE LAST 12 MONTHS

Trend

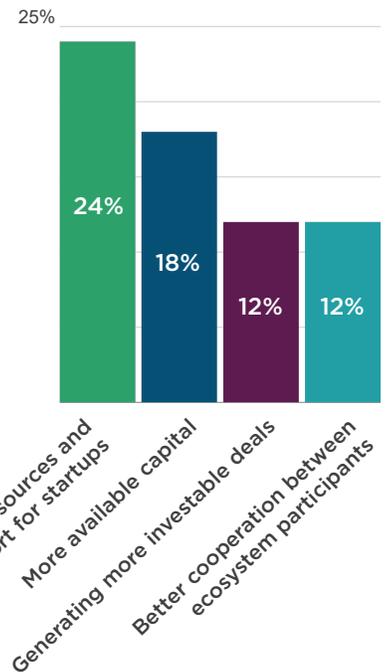
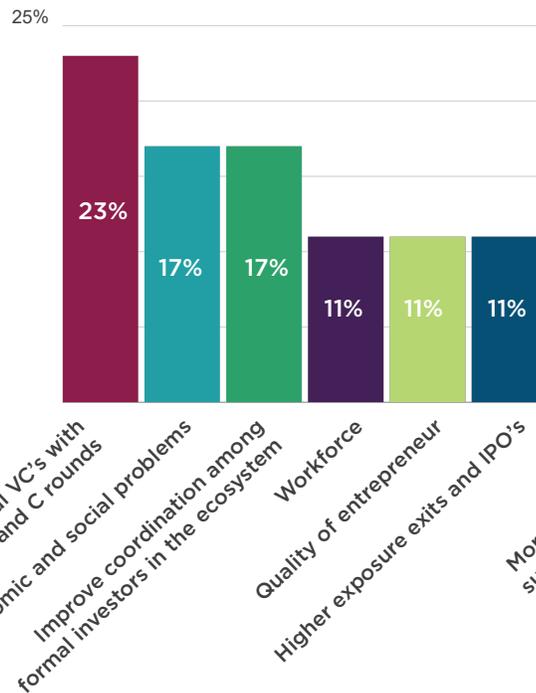
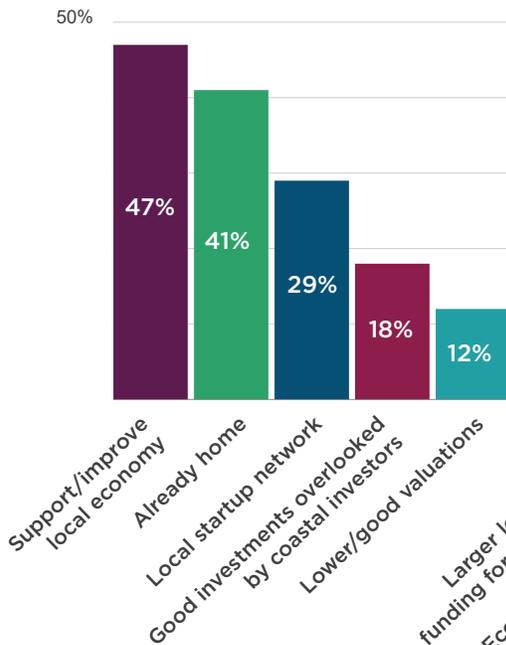
The investors in St. Louis are deeply loyal to the region, with 70% of respondents spending at least 51-100% of their funds in the area within the last 12 months. The region has an active investment community who are committed to the region.



What are the top factors that attract you to make investments in St. Louis?

What are the top 3 areas of the St. Louis startup community in need of improvements?

Where has the St. Louis startup community improved most over the last 12-24 months?



Trend

Investors and startups share many similarities when it comes to their impressions of the St. Louis region's startup community. 37% of startups and 24% of investors already call St. Louis home, with a sense of familiarity and comfort drawing them to the region. Both acknowledge the lack of institutional local Venture Capital firms in the area and feel that increased support and resources for startups has improved the region over the past 12-24 months.



ABOUT THE ANDERS STARTUP TEAM

After decades of supporting entrepreneurs and the startup community, Anders launched our dedicated startup practice over 10 years ago. Since then, the Anders Startup and Entrepreneurial Services team has worked with hundreds of entrepreneurs, investors and funds to help the entire startup ecosystem achieve their highest potential. We assist with entity selection and structuring, fundraising consulting and planning, valuations, mergers, acquisitions and expansions as well as traditional tax and audit services. We offer the complete scope to help startups become standouts in their industries.