

VC sentiment has emerged from its slump

7 May 2024

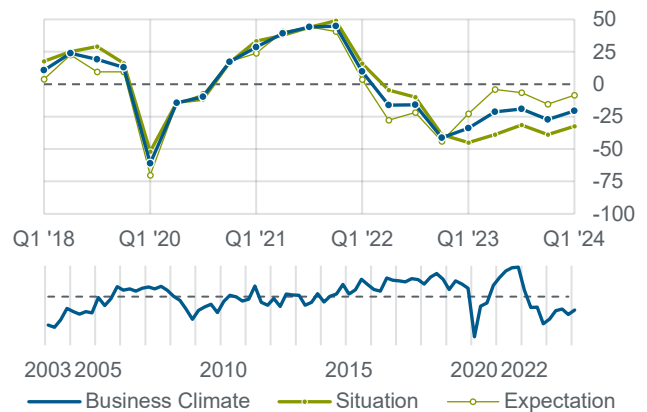
Author: Dr Georg Metzger, phone +49 69 7431-9717, georg.metzger@kfw.de
 Press contact: Christine Volk, +49 69 7431-3867, christine.volk@kfw.de

- Business expectations and situation assessments are improving
- Exit climate has improved moderately on a low level – IPO climate has warmed the most
- Satisfaction with entry valuations has taken a nosedive

VC sentiment bounced back to its path of recovery in the first quarter of 2024. Thus, although sentiment in the German VC market remained rather subdued at the start of the year 2024 as well, the improvement nearly made up for the slump in sentiment in the final quarter of 2023. The business climate indicator of the early-stage segment rose by 6.7 points to -20.5 balance points. Both subcomponents – current situation assessments and business expectations – improved at a similar rate. The indicator for the current business situation rose by 6.5 points to -32.4 balance points, while the indicator for business expectations climbed 6.9 points to -8.5 balance points.

Investor sentiment regarding fundraising and exits rose moderately. The improved mood around exits was driven purely by expectations, as situation assessments actually deteriorated slightly and are now lower than they have been since the financial crisis of 2009. This was primarily the result of assessments of the current situation in trade sales, which dropped sharply. The environment for IPOs, in turn, improved at such a rate that the sentiment indicator dot almost jumped from red to amber, possibly as an indication of an opening IPO window. Some large tech start-ups are at least assessing their IPO readiness, according to experts. After rising in the previous quarter, assessments of investment appetite fell again slightly. This is due to the sharp drop in situation assessments, while expectations improved again slightly. That means investment expectations are more optimistic than ever compared with situation assessments. If this overhang of expectations leads to growing investment activity, start-ups will be able to access VC much more easily again in the course of the year. At the same time, improving entry valuations appear to be increasing the pressure on investors to invest. Their sentiment around entry valuations for new commitments has fallen so steeply that the indicator dot has jumped from green to amber. Expectations are negative again for the first time in two years, if only just barely. The apparent rebound in valuations, however, has not yet lifted the mood around valuation adjustments. Further down rounds from the boom year of 2021 may still be imminent.

Development of venture capital sentiment indicator



Key data of venture capital sentiment components

Values in balance points

	Q1/24	Δ Q4/23	Low	High
Business climate	-20.5	↑ +6.7	-61.0	+44.8
Business situation	-32.4	↑ +6.5	-56.0	+49.0
Bus. expectations	-8.5	↑ +6.9	-70.1	+44.2
Fundraising	-32.3	↑ +6.8	-67.7	+73.3
Entry valuations	+5.1	↓ -15.1	-54.8	+49.3
Exit opportunities	-47.8	↑ +7.1	-72.5	+73.4
New investment	-4.5	⇔ -3.3	-72.0	+31.6
Dealflow quantity	+12.3	⇔ -3.4	-45.4	+32.8
Dealflow quality	+3.7	⇔ -3.3	-23.1	+28.6
DF innovativeness	+2.1	⇔ -1.0	-47.9	+36.0
Taxation / regulation	+5.7	↓ -7.7	-28.5	+35.0
Depreciations	-24.9	⇔ +3.4	-47.7	+30.6
Economy	-51.4	↑ +6.0	-89.3	+78.2
Interest rates	-56.1	↑ +22.4	-102.8	+43.9
Public support	-0.4	⇔ -2.0	-58.1	+37.3

Colour scheme of sentiment indicator dots: values in the lowest tercile are marked 'red', in the medium tercile 'amber' and in the highest tercile 'green'. Indicator design may lead to deviations from previous publications.

Source: KfW Research, BVK and DBVN.

Comments on the current trend

Dr Fritzi Köhler-Geib,
Chief Economist of KfW

“Investor sentiment picked up again at the start of the year 2024”, said Fritzi Köhler-Geib, Chief Economist of KfW. “It remains lacklustre but we see encouraging signs that it will continue trending upwards. Thus, the emerging dissatisfaction of investors with entry prices indicates that start-ups can demand better valuations again and a certain amount of pressure is therefore building to gradually use the still abundantly available dry powder. It also appears that hope for interest rate reductions in the course of the year is lifting the mood. After all, falling interest rates make VC a more attractive asset class for investors again, thereby making fundraising easier, which became increasingly more difficult in the past years.”

Ulrike Hinrichs,
Managing Director of the German Private Equity and Venture Capital Association (BVK)

“The sentiment rebound is advancing slowly but steadily”, added Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). “Should there be no further bad economic news, and should the expected interest rate turnaround indeed arrive, market sentiment should continue to improve. And this will then also translate into growing investment. Funds are well-resourced and on the lookout for attractive start-ups. If entry valuations increase again, this year is likely to be a favourable time for investors to stop being so cautious and invest more.”

Calculation of the German Venture Capital Barometer

The **German Venture Capital Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK), the member investors of the Deutsche Börse Venture Network (since the 2nd quarter of 2021) and further private equity companies with registered offices in Germany. It reports the business climate in the German venture capital market on the basis of assessments provided by private equity firms with a focus on young companies. All sentiment indicators represent the average of the balance of situation assessments (share of ‘good’ minus share of ‘bad’) and the balance of expectations identified at the same time for the coming six months, normalised to their respective historical mean balance values as baseline level. As a result, the maximum or minimum value of the indicator may exceed or fall below +100 or -100 as the actual maximum or minimum. Because of the way the barometer is constructed, positive indicator values point to above-average sentiment and negative values to below-average sentiment.

The **German Private Equity and Venture Capital Association (BVK)** is the voice and the face of the private equity industry in Germany. The association is committed to improving conditions and facilitating access to private equity so that even more businesses in Germany can benefit from private equity. It has some 300 members. These include around 200 private equity companies and investors as well as some 100 consulting firms and service providers of the industry.



Bundesverband
Beteiligungskapital e.V.

The **Deutsche Börse Venture Network (DBVN)** was launched in 2015 and is now Europe’s largest network for growth finance and ‘Capital Market Readiness’. It focuses on providing efficient access to capital and has an extensive range of networking and training services. The network of more than 200 fast-growth businesses and more than 450 investors has already enabled 13 IPOs and numerous trade sales.

Deutsche Börse
Venture Network