

VC sentiment continues on path of recovery

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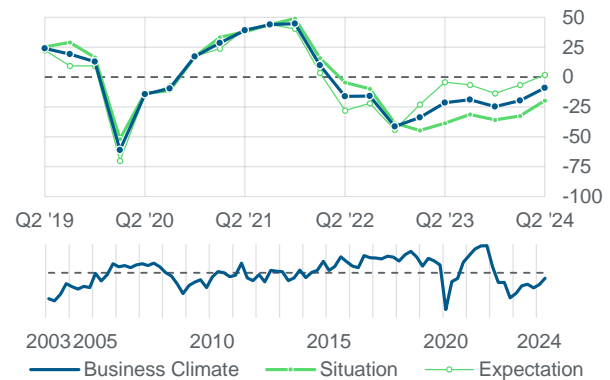
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- Assessments of business expectations just barely above average
- Sentiment indicators have improved broadly
- Fundraising climate picks up, expectations positive again for the first time in two years

Sentiment in the VC market continues on its path of recovery. The sentiment indicator for the early-stage segment improved by 10.6 points to -8.9 balance points in the fourth quarter of 2024. Thus, the business sentiment 'traffic light' is about to jump from red to amber. Both subcomponents of the sentiment indicator rose again at a similar rate. The indicator for the current business situation improved by 12.7 points to -19.7 balance points, while the indicator for business expectations climbed 8.4 points to +1.9 balance points, just above its long-term average.

An upbeat mood could be felt in the German VC market in the early summer of 2024. Many sentiment indicators improved significantly, most notably with a view to fundraising and entry valuations. The fundraising environment had already improved in the first quarter and now rose by a further 19.8 points to -14.7 balance points in the second quarter, changing the sentiment 'traffic light' from red to amber. What is pleasing here is that in fundraising, both expectations and assessments of the current situation have equally improved. This likely has to do with the fact that the hope for a key interest rate cut by the ECB came true in June. Falling interest rates make VC fundraising easier. The ECB interest rate cut and the currently inverted interest rate structure make further rate cuts likely. The jump in sentiment around entry valuations for new commitments was preceded by a dip in the first quarter. This was likely a return to the previous level after some deals may have been closed that appeared less 'favourable' in the first quarter. The exit environment also improved noticeably, but the 'traffic light' remains deep red. The expectations indicators for the individual exit pathways are significantly better than the indicators for the current situation. This shows that there is hope for improvement in the exit environment, which still appears to be difficult. What is pleasing is that the indicator of investor appetite has changed to green – very good news for start-ups in search of VC. Expectations also exceed situation assessments with a view to deal flow quantity and quality, showing that investors are obviously expecting demand for VC to pick up in the course of the year.

Development of venture capital sentiment indicator



Venture capital 'traffic lights'

Values in balance points

	Q2/24	Δ Q1/24	Low	High
Business climate	● -8.9	↑ +10.6	● -60.9	● +44.9
Business situation	● -19.7	↑ +12.7	● -55.8	● +49.2
Bus. expectations	● +1.9	↑ +8.4	● -70.2	● +44.2
Fundraising	● -14.7	↑ +19.8	● -67.6	● +73.4
Entry valuations	● +27.1	↑ +26.3	● -55.1	● +49.0
Exit opportunities	● -33.3	↑ +15.7	● -72.1	● +73.8
New investment	● +8.9	↑ +12.2	● -72.3	● +31.3
Dealflow quantity	● +10.4	➡ -2.7	● -45.5	● +32.6
Dealflow quality	● +14.9	↑ +12.6	● -23.3	● +28.5
DF innovativeness	● +17.1	↑ +15.0	● -48.2	● +35.8
Taxation / regulation	● -14.4	↓ -21.2	● -28.4	● +35.1
Depreciations	● -13.4	↑ +10.4	● -47.6	● +30.7
Economy	● -35.4	↑ +14.1	● -89.0	● +78.6
Interest rates	● -64.9	↓ -7.4	● -102.0	● +44.6
Public support	● +12.4	↑ +13.6	● -58.3	● +37.2

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

‘Business sentiment in the German venture capital market continued to improve in the second quarter of 2024 as well, so that the indicator dot is about to jump from red to amber. Overall, we can sense an upbeat mood in the German VC market since the sentiment indicators are broadly improving’, said Dr Fritzi Köhler-Geib, Chief Economist of KfW. ‘In the course of the year, it should become easier for start-ups to attract VC investors than last year. One indication of this is that the fundraising environment has improved significantly and investors are now more prepared than average to commit to new investments.’

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

‘Since the low at the end of the year 2022, the mood in the German VC market has shown a strong rebound for six straight quarters now’, said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘One thing that makes us optimistic for the remainder of the year is that business expectations have already returned to positive territory again. Another is that important indicators such as the fundraising and exit environment, investment appetite and business cycle are signalling improvement. Along with the optimistic assessments of entry valuations and deal flow, this should also translate into further expanding investment activity and, most likely, the return of larger funding rounds, too. And if key interest rates continue to fall, this would give the market yet another boost.’

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.

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.



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