VC business confidence drops to all-time low

Sentiment deteriorates across a broad front, with almost all confidence indicators in the red

Entry valuations are the only exception but appetite for new investment is low

**Impact of the coronavirus pandemic has shocked the VC market**

The uncertain consequences of the coronavirus pandemic have unsettled the German VC market. Business confidence has plummeted to an all-time low. In the first quarter of 2020, the business climate indicator of the early-stage segment nosedived by 72.3 points to -61.3 balance points – an unprecedented decline. VC investors’ assessments of both the current business situation and expectations have deteriorated dramatically. The indicator for the current business situation fell by -66.6 points to -52.6 balance points, while the indicator for business expectations dropped by 77.9 points to -69.9 balance points.

**Sentiment has fallen across a broad front**

In the first quarter, almost all sentiment indicators fell clearly into the red. Sentiment regarding fundraising, exit opportunities, new investments and value adjustments has dropped sharply. Only the assessment of entry valuations improved and experience has shown that this indicator moves in an opposite direction to the others. Given the uncertainty over the further development of the coronavirus pandemic, the economic outlook has become very bleak and a recession is imminent. Global share markets and, thus, valuation benchmarks have slumped, so it is understandable that pressure on portfolio and entry valuations has risen noticeably. Reluctance to undertake new investments is also a well-known phenomenon. This crisis-induced state of shock already occurred after the end of the New Economy boom and in the financial crisis, when investors hesitated to invest again and temporarily limited themselves to supporting their portfolio companies. However, the need for VC has not decreased. Although VC investors have a more negative view of the level and quality of their deal flow and its innovative character, the decline is relatively moderate.
Comments on the current trend

‘The corona crisis in Germany abruptly ended the very good sentiment in the VC market’, said Dr Friederike Köhler-Geib, Chief Economist of KfW. ‘Experience has shown that in times of crisis, VC investors focus on portfolio maintenance and put off new investments for the time being. That puts downward pressure on the level of investments. But now in particular it is important not to leave the very good start-ups that are still searching for VC investors out in the rain. Otherwise, they will have difficulty getting through the capital-intensive time to market. Losing a start-up generation would be a heavy hit. The very good fundraising climate of past years should actually make bridging the gap possible.’

‘Demand for venture capital should not drop noticeably because of the pandemic’, added Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘The challenge will be to secure continued financing for start-ups overall as well as for the large flagship start-ups. Otherwise, irreparable damage might be done to the start-up ecosystem that was so painstakingly built up in the past years. But the venture capital industry is well capitalised. Besides, the German Federal Government has responded and already put together a start-up programme to support it, which should now be launched as quickly as possible.’

Calculation of the German Venture Capital Barometer

The German Venture Capital Barometer is based on a quarterly survey of the approx. 200 members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK) and further German private equity companies. The German Venture Capital Barometer has been published as a separate sentiment indicator for the German venture capital market since the second quarter of 2019. It was previously part of the German Private Equity Barometer, the sentiment barometer for the overall private equity market 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 investments in start-ups and young technology 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, adjusted by their respective historical mean value.