

## Business climate in the VC industry recovers in weak market environment

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- VC fundraising climate is unable to maintain record level but remains very good
- Level and quality of VC deal flow dipped in early summer
- General VC exit climate is recovering again but IPO climate is still falling

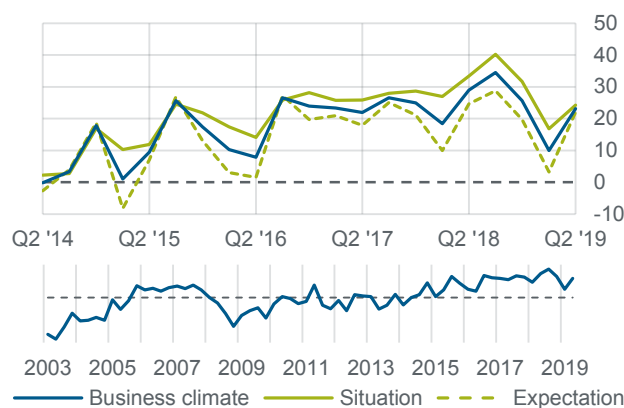
Preliminary remarks: The German Venture Capital Barometer is published as a separate sentiment indicator for the German venture capital market from the second quarter of 2019. It was previously part of the German Private Equity Barometer, the sentiment barometer for the overall private equity market in Germany.

### Business climate in VC industry is improving after slump – but market environment indicators are falling

The business climate in the VC market is recovering after two major setbacks. The business climate indicator of the early-stage segment rose by a strong 13.2 points to 23.2 balance points in the second quarter of 2019. VC investors are more upbeat about their current business situation but, in particular, they hold much more optimistic business expectations again. The indicator for the current business situation rose to 24.3 balance points (+7.5), while the indicator for business expectations improved by 18.8 points to 22.1 balance points.

The sentiment indicators for the VC market environment, however, are increasingly deteriorating. More and more indicators are flashing amber or even red. What remains in the green are the scores given for fundraising, exit opportunities, the taxation framework and write-down pressure. The fundraising climate dropped slightly from the record level of the first quarter but remains clearly positive. The exit climate, on the other hand, had plummeted in the first quarter but has now recovered. Assessments have improved for nearly all exit alternatives with the exception of the IPO climate, which is becoming increasingly chilly. Assessments of the strength and quality of VC deal flow turned amber in early summer. The level of actual VC deal flow appears to have disappointed investors in the second quarter as situation assessments dropped more sharply than expectations. For the first time in five years, assessment of the innovation climate also turned amber, albeit only slightly. VC investors also remain dissatisfied with entry prices of new operations for the first time in five years, which means the sentiment indicator for entry prices has since been in the red. Although the situation clearly eased by the end of 2018 after the low of the second quarter of 2017, the assessment of the pricing climate has since deteriorated again. This development is being driven by expectations for entry prices, which dropped noticeably in the first half of 2019.

### Development of VC business climate indicator



Source: KfW Research and BVK.

### Key data of VC sentiment indicators

Values in balance points

	Q2/19	Δ vs. Q1/19	High	Low
Business climate	● +23.2	↑ +13.2	🟢 +34.5	🔴 -50.4
Fundraising climate	● +58.0	↓ -14.6	🟢 +72.6	🔴 -65.2
Entry prices	● -32.6	↓ -8.0	🟢 +48.1	🔴 -52.1
Exit opportunities	● +33.5	↑ +23.1	🟢 +51.4	🔴 -75.6
Dealflow strength	● +6.1	↓ -7.1	🟢 +29.4	🔴 -42.4
Dealflow quality	● -4.4	↓ -12.6	🟢 +26.8	🔴 -22.5
Taxation framework	● +14.8	↓ -2.9	🟢 +39.3	🔴 -25.2
Innovation climate	● +10.7	↓ -6.6	🟢 +39.0	🔴 -44.3
Write-down pressure	● +10.7	↑ +13.1	🟢 +28.0	🔴 -38.3

The colour coding of the balances is based on the historical values of the respective indicator (1st tercile 'red', 2nd tercile 'amber' and 3rd tercile 'green'). Indicator design may lead to deviations from previous publications.

Source: KfW Research and BVK.

### Commentary on the current development

'Although the business climate in the German VC market has recovered from the previous setback, the market environment is somewhat weak at the moment', said Dr Georg Metzger of KfW Research. 'By and large, however, we do not see the emergence of any particular trend, so it may also be a passing weakness, such as the one we already experienced in early 2016.'

Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK), remarked: 'The mood in the German venture capital market remains good. This is reflected not least by lively investment activity and some very large financing rounds which, however, were shouldered by international capital providers. The fundraising and exit situation also remains favourable. At the same time, the undoubtedly ambitious entry prices open up opportunities for attractive exit valuations.' ■

### 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. 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.