

VC business confidence returns after the coronavirus shock

21 July 2020

Author: Dr Georg Metzger, phone +49 69 7431-9717, georg.metzger@kfw.de

Press contact: Wolfram Schweickhardt, phone: +49 69 7431 1778, wolfram.schweickhardt@kfw.de

- VC business climate reverses more than half the coronavirus slump
- The entire VC market is gaining momentum again: all indicators have improved
- But appetite for new investment remains subdued

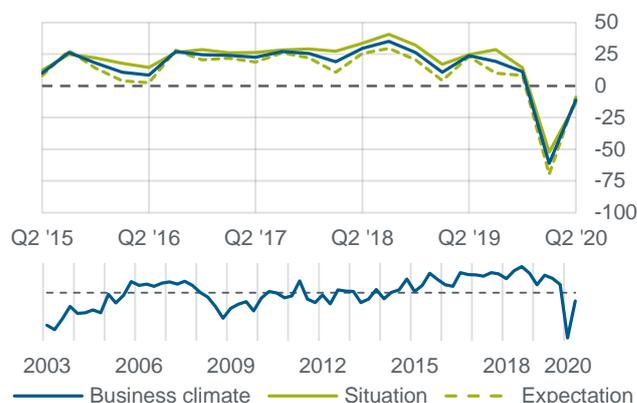
VC market is reawakening from the shock-induced paralysis

After the German VC market was unsettled by the uncertain consequences of the coronavirus crisis at the end of the first quarter of 2020, the initial shock has passed for now. Business sentiment clearly recovered from the all-time low. In the second quarter the sentiment indicator of the early-stage sentiment rose by 50.0 to -11.1 balance points, reversing more than half of the coronavirus slump. VC investors' assessments of both the current business situation and expectations recovered. The indicator for the current business situation rose by 39.1 to -13.3 balance points, while the indicator for business expectations increased by 60.9 to -8.9 balance points.

VC investors are breathing a sigh of relief

Just as the various sentiment indicators fell almost consistently in the first quarter, they recovered again in the second quarter. The only exception was quality of deal flow, however, for which the assessment remained steady, as it did in the previous quarter. VC investors are breathing a sigh of relief with respect to fundraising, exit opportunities, new investment and value adjustments. With the exception of the fundraising climate, the corresponding indicators continue in negative territory but the relief over progress made in containing the pandemic in Germany for the moment and apparently mastering the crisis better economically than other countries is palpable. It is pleasing that the assessment of entry valuations – an indicator that traditionally moves opposite to the others – continues to improve after rising significantly in the first quarter. As VC investors have come out of their state of shock and are again rather more willing to make new investments, more favourable entry valuations may have positive feedback effects and put the market back on track more quickly.

Development of VC business climate indicator



Sources: KfW Research and BVK.

Key data of VC sentiment indicators

Values in balance points

	Q2/20	Δ vs. Q1/20	High	Low
Business climate	-11.1	+50.0	+35.1	-61.1
Business situation	-13.3	+39.1	+40.6	-58.8
Business expectations	-8.9	+60.9	+29.7	-69.8
Fundraising climate	+0.8	+36.1	+71.5	-66.4
Entry evaluations	+26.2	+14.6	+49.0	-51.2
Exit opportunities	-23.8	+49.6	+52.6	-74.4
New investments	-31.5	+38.6	+22.4	-70.1
Dealflow quantity	+5.0	+15.7	+29.4	-42.5
Dealflow quality	-5.3	+1.1	+27.3	-22.0
Funding	+37.8	+35.8	+39.9	-56.1
Taxation framework	+29.0	+16.8	+38.2	-26.4
Innovation climate	+19.7	+34.3	+38.7	-44.7
Write-down pressure	-15.4	+34.3	+28.5	-49.8

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.

Sources: KfW Research and BVK.

KfW Research

German Venture Capital Barometer: 2nd Quarter 2020

Comments on the current trend

'VC investors have come out of the first shock after the outbreak of the coronavirus crisis', said Dr Friederike Köhler-Geib, Chief Economist of KfW. 'Their relief over the fact that the crisis appears to have hit many start-ups less hard than expected is palpable. Appetite for new investment has grown again. But since they now perceive entry valuations to be much more favourable than before the crisis, this may trigger new investment momentum. The stock market rally also signals that fundraising is still possible and there is no need for them to keep their powder dry as a precaution.'

'The findings show that the sector is breathing a clear sigh of relief over the way the pandemic has so far evolved', said Swantje von Massenbach, deputy Managing Director of the German Private Equity and Venture Capital Association (BVK). 'The sharp rise in venture capitalists' business expectations in particular makes us cautiously optimistic for the second half of the year. What was helpful is that the Federal Government responded quickly to support start-ups and their investors as well. The measures of the start-up assistance package such as the Corona Matching Facility have sent out an important signal.'

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.