

VC market reaches new high: new top scores for confidence indicators

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- VC sentiment hits new all-time high
- Sentiment indicators for fundraising, exits and strength of deal flow also reach new highs
- Competitive entry valuations – but investor satisfaction level has never been lower

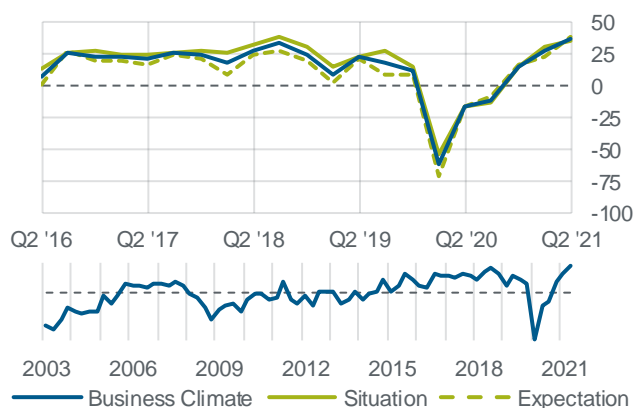
VC sentiment tops previous all-time high

The upturn in sentiment in the German venture capital market continued in the second quarter of 2021. The sentiment indicator of the early-stage segment rose by 10.5 points to 37.8 balance points, marking a new record high. Sentiment is mainly driven by expectations, while the current situation improved only moderately. The indicator for the current business situation rose by 4.6 points to 36.0 balance points, while the indicator for business expectations increased noticeably by 16.4 points to 39.6 balance points. Expectations for the next six months are thus higher than ever.

Fundraising, exit opportunities and strength of deal flow are boosting sentiment

The record high sentiment has been fuelled by the sentiment components in particular: fundraising, exit opportunities and strength of deal flow. All three indicators have marked new record highs. The fundraising sentiment just topped the previous record high of early 2019 on the back of improved expectations for the next six months. The exit climate has improved significantly for both the assessment of the current situation and expectations. It clearly exceeded the record high of autumn 2018. Improvements are evident across all exit channels, even though the IPO climate has improved the most. Thus, the first two quarters were the strongest IPO half-year in Germany since 2000 and the IPO calendar for the next half year is also well filled. Assessments of the strength of deal flow are also only marginally better than the previous all-time high of autumn 2016, enabled by significantly higher expectations for the next six months. Unlike the strength of deal flow, its quality was rated moderately lower than in the previous quarter, weighing on investment appetite. Nevertheless, both indicators remain 'good'. The most significant change is evident in the level of satisfaction with entry valuations, where the indicator plummeted by 33 points to an all-time low, which weighed on investment appetite as well. Indeed, deal volumes from series A / round 1 financings rose significantly in the second quarter. In addition, the club of 'unicorns' expanded further in Germany, with three new start-ups reaching a valuation of USD 1 billion for the first time.

Development of VC business climate indicator



Source: KfW Research, BVK and DBVN.

Key data of VC sentiment components

Values in balance points

	Q2/21	Δ vs. Q1/21	High	Low
Business climate	● +37,8	▲ +10,5	▶ +37,8	▶ -62,3
Business situation	● +36,0	➡ +4,6	▶ +39,4	▶ -57,8
Business expectations	● +39,6	▲ +16,4	▶ +39,6	▶ -70,9
Fundraising	● +72,0	▲ +5,8	▶ +72,0	▶ -69,0
Entry evaluations	● -54,2	▼ -33,6	▶ +49,9	▶ -54,2
Exit opportunities	● +70,4	▲ +21,9	▶ +70,4	▶ -75,6
New investments	● +20,3	▼ -12,0	▶ +32,3	▶ -71,3
Dealflow quantity	● +30,5	➡ +2,5	▶ +30,5	▶ -43,1
Dealflow quality	● +16,1	▼ -9,6	▶ +26,3	▶ -21,4
Funding	● +22,8	▼ -14,1	▶ +38,2	▶ -57,2
Taxation framework	● +6,7	▲ +5,3	▶ +36,6	▶ -26,8
Innovation	● +15,2	▼ -14,7	▶ +37,7	▶ -46,2
Write-downs	● +6,5	▼ -5,8	▶ +28,5	▶ -49,8

The colour coding of the balances is based on the historical values of the respective indicator. The poorest tercile is marked 'red', the medium tercile 'amber' and the best tercile 'green'. Indicator design may lead to deviations from previous publications.

Source: KfW Research, BVK and DBVN.

Comments on the current trend

‘Two megadeals for around USD 1 billion each lifted the German VC market to a new level in the second quarter, with sentiment higher than anything we have seen before’, said Dr Fritz Köhler-Geib, Chief Economist of KfW. ‘Only the increased entry valuations are a problem for many investors but they have not meaningfully influenced business sentiment yet. The development of deal volume indicates that valuations have increased most for follow-up financing rounds and not so much in seed finance transactions. This can also be seen as a success in that German start-ups that have been able to “establish themselves” are now trusted more.’

‘The second quarter was characterised by lively investment activity and, not least, some outstanding financing rounds. More and more unicorns are a great success for entrepreneurs and their investors. This says a lot about German start-ups and pleases us very much’, said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘Another factor driving the euphoric sentiment is the satisfaction with the fundraising and exit environment. On the flip side, however, we have the generally very high valuation level, which is now being called in early rounds as well. The scepticism about this already appears to be affecting the investment appetite of VCs. The challenge is that start-ups must justify their high valuations in the long term as well.’

Calculation of the German Private Equity Barometer

The **German Private Equity 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 on business sentiment in the German private equity market on the basis of assessments provided by private equity firms with a focus on mature small and medium-sized enterprises. 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 balance values. 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 Venture Capital Association** is the voice in 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 460 investors has already enabled ten IPOs and numerous trade sales.



Bundesverband Deutscher
Kapitalbeteiligungsgesellschaften e.V.

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